

## WHAT'S INSIDE

## SOFTWARE CODE

- 6 U.S. Supreme Court to hear Google bid to end Oracle copyright suit  
*Google v. Oracle America* (U.S.)

## FOREIGN SALES

- 7 Justices reject bid to clarify when foreign sales induce U.S. patent infringement  
*Enplas Display Device Corp. v. Seoul Semiconductor* (U.S.)

## APPOINTMENTS CLAUSE

- 8 Arthrex remedy 'wrongly decided,' 2 Federal Circuit judges say in pillow patent case  
*Bedgear LLC v. Fredman Bros. Furniture* (Fed. Cir.)

## DMCA

- 9 Philips' ultrasound software is being hacked, copyright suit says  
*Philips North America v. Summit Imaging* (W.D. Wash.)

## TRADEMARK REGISTRATION

- 10 U.S. Supreme Court to consider blocking Booking.com trademark  
*Patent and Trademark Office v. Booking.com* (U.S.)

## CYBERSQUATTING

- 11 Hershey embraces 'kiss' domain after cybersquatting default judgment  
*Hershey Co. v. AnyKiss* (M.D. Pa.)
- 12 Hong Kong registrant loses 'AAA' domain name to American car service  
*American Automobile Association v. China Capital Domain Fund* (WIPO Arb.)

## SOVEREIGN IMMUNITY

## Sovereign immunity, due process at issue in Supreme Court shipwreck copyright case

By Kteba Dunlap, Esq.

The U.S. Supreme Court heard arguments Nov. 5 from a shipwreck videographer and the state of North Carolina over whether states should be immune to copyright infringement claims.

***Allen et al. v. Cooper et al., No. 18-877, oral argument held, 2019 WL 5788662 (U.S. Nov. 5, 2019).***

In questioning both sides in the copyright tiff, the justices struggled to find a way through the court's own precedents to balance the rights of copyright holders with the doctrine of state sovereign immunity.

The dispute stems from copyright claims videographer Frederick Allen filed after he found North Carolina officials had been using his videos about the sunken ship of Edward Teach, also known as Blackbeard the pirate.

Allen is appealing the 4th U.S. Circuit Court of Appeals' decision to let North Carolina off the hook after finding Congress did not abrogate state sovereign immunity through the Copyright Remedy Clarification Act of 1990, 17 U.S.C.A. § 511(a). *Allen v. Cooper*, 895 F.3d 337 (4th Cir. 2018).

During the oral argument, the justices explored the two main avenues for upholding the CRCA: finding Congress had power to enact



REUTERS/Andrew Chung

Filmmaker Frederick Allen and his lawyer Derek Shaffer stand outside the U.S. Supreme Court after oral arguments in his bid to revive a copyright lawsuit involving images of Blackbeard's wrecked ship Nov. 5.

the statute through either the Constitution's intellectual property clause or the due process clause.

## ARTICLE I POWERS, PRECEDENTS

Allen's attorney, Derek Shaffer of Quinn Emanuel Urquhart & Sullivan, argued first that Congress had validly enacted the CRCA under its Article I powers.

CONTINUED ON PAGE 16

## EXPERT ANALYSIS

## Jurisdictional hurdles presented by foreign patent infringers

Oblon attorney Robert C. Mattson explains how personal jurisdiction complications play a part in patent disputes with foreign defendants.

SEE PAGE 3

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## TABLE OF CONTENTS

**Sovereign Immunity: *Allen v. Cooper***

Sovereign immunity, due process at issue in Supreme Court shipwreck copyright case (U.S.) ..... 1

**Expert Analysis: By Robert C. Mattson, Esq., Oblon**

Jurisdictional hurdles presented by foreign patent infringers ..... 3

**Software Code: *Google v. Oracle America***

U.S. Supreme Court to hear Google bid to end Oracle copyright suit (U.S.) ..... 6

**Foreign Sales: *Enplas Display Device Corp. v. Seoul Semiconductor***

Justices reject bid to clarify when foreign sales induce U.S. patent infringement (U.S.) ..... 7

**Appointments Clause: *Bedgear LLC v. Fredman Bros. Furniture***

Arthrex remedy 'wrongly decided,' 2 Federal Circuit judges say in pillow patent case (Fed. Cir.) ..... 8

**DMCA: *Philips North America v. Summit Imaging***

Philips' ultrasound software is being hacked, copyright suit says (W.D. Wash.) ..... 9

**Trademark Registration: *Patent and Trademark Office v. Booking.com***

U.S. Supreme Court to consider blocking Booking.com trademark (U.S.) ..... 10

**Cybersquatting: *Hershey Co. v. AnyKiss***

Hershey embraces 'kiss' domain after cybersquatting default judgment (M.D. Pa.) ..... 11

**Cybersquatting: *American Automobile Association v. China Capital Domain Fund***

Hong Kong registrant loses 'AAA' domain name to American car service (WIPO Arb.) ..... 12

**Data Theft: *DiscoverOrg Data v. Quantum Market Research***

Marketing research firm can't escape data-theft allegations (W.D. Wash.) ..... 13

**False Advertising: *Travelers Indemnity Co. v. Luna Gourmet Coffee & Tea Co.***

Travelers must cover 'Kona' false-advertising claims, coffee roaster says (D. Colo.) ..... 14

**Publicity**

NCAA board votes to let student athletes endorse brands, accept sponsors ..... 15

**Case and Document Index**

18

# Jurisdictional hurdles presented by foreign patent infringers

By Robert C. Mattson, Esq.

**Oblon**

In *In re HTC Corp.*, 889 F.3d 1349 (Fed. Cir. 2018), the U.S. Court of Appeals for the Federal Circuit considered whether a then-recent Supreme Court decision imposed restrictions on where foreign defendants could be sued.

That decision was *TC Heartland LLC v. Kraft Food Group Brands LLC*, 137 S. Ct. 1514 (2017). In it, the high court established that patent suits against domestic defendants may be brought only where the defendant is incorporated or has a "regular and established place of business."

By holding that foreign defendants were not protected by the special patent venue statute, 28 U.S.C.A. § 1400(b), the Federal Circuit in *HTC* reaffirmed the long-standing rule that suits against foreign defendants "are wholly outside the operation of all the federal venue laws, general and special."<sup>1</sup>

While foreign defendants can still seek to change venue on the basis of the parties' convenience, the venue laws otherwise offer no protection for foreign defendants seeking a venue change, the Federal Circuit said.

The Supreme Court refused to consider *HTC Corp.*'s appeal,<sup>2</sup> thus preserving the Federal Circuit's venue rule for foreign defendants.

The *HTC* and *TC Heartland* decisions have made foreign defendants attractive targets to patent owners that seek flexibility in their choice of venue.

Additionally, foreign product manufacturers and foreign parent companies can present the most attractive targets for patent infringement suits for strategic and business reasons.

For example, it is not unusual for the foreign manufacturer or foreign parent to be the best source of discovery for liability or damages issues.

When personal jurisdiction is based on a stream-of-commerce theory, selecting a forum can be especially complicated.

## When personal jurisdiction is based on a stream-of-commerce theory, selecting a forum can be especially complicated.

A foreign manufacturer may also be the best target for patent infringement if the direct infringer in the U.S. is a customer or potential customer of the patent owner. In that situation, the patent owner can avoid suing a customer if it can plead indirect infringement by the foreign manufacturer and if the district court can exercise personal jurisdiction over the foreign manufacturer.

Because federal courts have exclusive subject-matter jurisdiction over patent infringement cases<sup>3</sup> and because venue is proper to foreign defendants in any district,<sup>4</sup> lack of personal jurisdiction is one of the last defenses a foreign defendant can assert to avoid being sued in the U.S.

### STREAM-OF-COMMERCE THEORY

There are two flavors of personal jurisdiction, general and specific, but in the context of foreign defendants with an insignificant U.S. presence, specific jurisdiction is the one that is litigated the most.

Specific jurisdiction exists when a defendant's connections with the forum state comport with the state's long-arm statute, which sets forth the statutory requirements for service of process, and with the "minimum contacts" and "reasonableness" requirements rooted in the due process clause.<sup>5</sup>

Take, for example, a patent owner that relies solely on a foreign manufacturer's placement of infringing products into the stream of commerce to establish personal jurisdiction. The patent owner must argue that the defendant has purposeful minimum contacts with the forum state, at least in part based on the defendant's sales or shipment of products that ultimately reach the forum state.

Unfortunately for patent owners and foreign defendants, however, there are no clear guidelines by which to determine whether personal jurisdiction exists in that situation.

The Federal Circuit applies its own law on matters of personal jurisdiction,<sup>6</sup> but, so far, has avoided constructing a single test by which to assess whether a foreign manufacturer's placement of products into the stream of commerce results in minimum contacts sufficient to create personal jurisdiction.

Even when presented with opportunities to establish such a test, the Federal Circuit has expressly avoided doing so.<sup>7</sup>

Consequently, different courts apply the stream-of-commerce theory of personal jurisdiction differently, prompting one federal judge to comment: "The approach to personal jurisdiction within the sphere of patent law is, resultantly, anything but uniform."<sup>8</sup>

Thus, a patent owner should look closely at the tendencies of the forum court, as well as the controlling state long-arm statute, if personal jurisdiction over a foreign defendant will be based on the defendant's placement of infringing products into the stream of commerce.



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The Supreme Court has set forth two approaches to stream of commerce, and without a body of Federal Circuit case law to develop the contours of either approach, the district courts have applied the stream-of-commerce theory inconsistently.<sup>9</sup>

The Supreme Court's two approaches to stream of commerce are sometimes called the "*Asahi* divide" in reference to the justices' 4-4 split in *Asahi Metal Industry Co. v. Superior Court*, 480 U.S. 102 (1987).

There, one plurality opinion, authored by Justice William Brennan, required only that the defendant be aware that its products would foreseeably reach the forum state. The other plurality opinion, authored by Justice Sandra Day O'Connor, required also that the defendant engage in additional conduct purposefully directed to the forum state.

Because the Federal Circuit is one of the circuit courts that has not picked sides in the *Asahi* divide, the same conduct by a defendant in a patent case can result in the exercise of personal jurisdiction in some courts and not others.<sup>10</sup>

Thus, patent owners should consider the following observations and guidelines when filing an infringement lawsuit against a foreign entity with no U.S. presence.

As an initial matter, patent owners should always try to ascertain whether accused products are placed into the stream of commerce by the potential defendant or another entity.

While a foreign parent corporation may own subsidiaries in the U.S., the patent owner will still have to show that the foreign parent placed, or influenced the placement of, the accused products into the stream of commerce.<sup>11</sup>

## NATIONAL SALES CHANNELS

If the situation is unclear, the patent owner should, through its pre-suit investigation, try to obtain enough information about the foreign defendant to support allegations in the complaint that are sufficient for a court to grant a request for jurisdictional discovery if the defendant contests personal jurisdiction.

Annual reports and other information published for investors can provide a rich source of information about the manufacturing activities of a foreign defendant.

The information in an annual report may identify the business activities of the various corporate-family members and indicate whether such activities take place in, or are directed at, the U.S.

It is more challenging to establish jurisdiction over a foreign manufacturer in courts that apply the narrower of the *Asahi* tests and require additional conduct of the defendant that is purposely directed to the forum state.<sup>15</sup>

## Annual reports and other information published for investors can provide a rich source of information about the manufacturing activities of a foreign defendant.

When analyzing annual reports, some courts have decided to exercise personal jurisdiction over a defendant based on generic statements that the defendant's products are intended for telecommunications carriers in the U.S., generally.<sup>12</sup>

Where the accused product is such that national distribution and sales are presumed, the defendant's intent to serve the U.S. market will often suffice to establish personal jurisdiction in courts that exercise jurisdiction based merely on whether the defendant could foresee that its products would reach the forum state, thereby applying the broader of the two *Asahi* tests. Such presumptions are also applied by courts that consider a product's placement in national sales channels sufficient to establish personal jurisdiction under either of the *Asahi* tests.

Most, if not all, district courts that exercise personal jurisdiction broadly in patent cases follow the Federal Circuit's practice of finding that the defendant's conduct either satisfies both the Brennan approach and the O'Connor approach to stream of commerce or that the conduct fails both approaches.

The decisions of these courts often cite the *Beverly Hills Fan* case, in which the Federal Circuit reversed a district court's determination that it could not exercise personal jurisdiction.<sup>13</sup>

The Federal Circuit found that, under either version of stream-of-commerce theory, the district court could exercise personal jurisdiction because the defendant "delivers its products into the stream of commerce with the expectation that they will be purchased by consumers in the forum state."<sup>14</sup>

Generally speaking, district courts appear to find this approach more attractive when the accused product is mass-produced and nationally distributed, such as a product in the automotive or consumer-electronics industries.

In those states, when a foreign defendant makes out-of-state sales to a downstream customer or distributor, the sales alone are insufficient to establish minimum contacts.

Typically, a patent owner must show that the foreign defendant did "something more" to have "targeted the forum."<sup>16</sup>

In such courts, isolated offers to sell in the forum state or Food and Drug Administration manufacturer obligations to customers in the forum state may be insufficient to establish minimum contacts even when it is foreseeable that the defendant's products will reach the forum state.<sup>17</sup>

## LONG-ARM JURISDICTION

In some instances, a defendant's ties to the U.S. are so remote that personal jurisdiction is difficult to establish for any particular state.

One remedy is Federal Rule of Civil Procedure 4(k)(2), or the federal long-arm statute. This federal rule provides a statutory basis for personal jurisdiction when a defendant's contacts with each state are so limited that personal jurisdiction does not exist in any state.

It is particularly helpful in patent cases where personal jurisdiction is based on a stream-of-commerce theory.

For example, a patent owner may encounter jurisdictional problems in each state if the defendant is a foreign manufacturer that supplies its customers outside of the U.S. with products that the customers subsequently import into the U.S.

The manufacturer may not be directing its activities to any state in particular, even if the manufacturer is inducing patent infringement by its customers under Section 271(b) of the Patent Act, 35 U.S.C.A. § 271(b).

In that scenario, personal jurisdiction is appropriate in any federal district court under Rule 4(k)(2) if the foreign manufacturer is

not subject to personal jurisdiction in any state but still has sufficient contacts with the U.S., as a whole, to enable the exercise of jurisdiction without violating due process requirements.

Providing further assistance to patent owners, the Federal Circuit has adopted an approach to Rule 4(k)(2) that encourages patent owners to plead federal long-arm jurisdiction in the alternative.

Specifically, patent owners do not have to prove the lack of personal jurisdiction in all 50 states.

Instead, the court applies a burden-shifting approach that triggers Rule 4(k)(2) when a defendant contests personal jurisdiction in the forum state and refuses to identify another state where it is subject to personal jurisdiction.<sup>18</sup>

Thus, Rule 4(k)(2) provides patent owners with a fallback position against foreign defendants that seek total insulation from the jurisdiction of U.S. courts by forming affiliates to import products into the U.S.<sup>19</sup>

## OTHER THEORIES

Other theories of jurisdiction should also be explored. For example, an agency theory of personal jurisdiction may work even where a stream-of-commerce theory fails.

Under an agency theory, the specific jurisdictional acts of a U.S. subsidiary on behalf of its foreign parent can be imputed to the parent.<sup>20</sup>

In determining whether an agency relationship exists, courts will look at the degree of control exercised by the parent over its subsidiary. To do so, they will examine the overlap of corporate officers, financing of operations, division of management, and how each corporate entity obtains its business.

Another alternative for patent owners is to bypass personal-jurisdiction requirements altogether by filing a complaint with the U.S. International Trade Commission.

The ITC exercises jurisdiction over products imported into the U.S., and personal

jurisdiction over the manufacturer is irrelevant to whether the ITC can block importation of infringing products through an exclusion order.

## Patent owners do not have to prove the lack of personal jurisdiction in all 50 states.

While patent owners can take advantage of the generous venue rules for foreign defendants, they should not overlook the intricacies of personal jurisdiction, particularly when personal jurisdiction is based on a stream-of-commerce theory and the defendant has little or no presence in the U.S.

Such situations are increasingly common as supply chains become more complex and the number of foreign-origin products and components that ultimately end up in the U.S. increases. **WJ**

## NOTES

<sup>1</sup> *In re HTC Corp.*, 889 F.3d at 1354 (citing *Brunette Mach. Works Ltd. v. Kockum Indus. Inc.*, 406 U.S. 706 (1972)).

<sup>2</sup> *HTC Corp. v. 3G Licensing SA*, 139 S. Ct. 1271 (2019).

<sup>3</sup> 28 U.S.C.A. § 1338(a).

<sup>4</sup> *HTC*, 889 F.3d at 1354.

<sup>5</sup> *Breckenridge Pharm. Inc. v. Metabolite Labs. Inc.*, 444 F.3d 1356, 1361 (Fed. Cir. 2006).

<sup>6</sup> *Akro Corp. v. Luker*, 45 F.3d 1541, 1543 (Fed. Cir. 1995) ("We apply the law of the Federal Circuit, rather than that of the regional circuit in which the case arose, when we determine whether the district court properly declined to exercise personal jurisdiction over an out-of-state accused infringer.").

<sup>7</sup> See, e.g., *Polar Electro Oy v. Suunto Oy*, 829 F.3d 1343, 1350 (Fed. Cir. 2016) (declining "to decide which version of the stream-of-commerce theory should apply"); *AFTG-TG LLC v. Nuvoton Tech. Corp.*, 689 F.3d 1358, 1364 (Fed. Cir. 2012); *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1566 (Fed. Cir. 1994).

<sup>8</sup> *Polar Electro Oy v. Suunto Oy*, No. 11-cv-1100, 2017 WL 3713396 (D. Del. Aug. 29, 2017).

<sup>9</sup> Cf. Non-Confidential Petition for Writ of Mandamus at 23, 31, *In re TCT Mobile Int'l Ltd.*, No. 20-30 (Fed. Cir. Oct. 8, 2019) (arguing that the same district court has used different stream-of-commerce tests).

<sup>10</sup> The circuit courts are nearly evenly divided between the Justice Brennan approach (4th, 5th, 7th, and 8th circuits), the Justice O'Connor approach (1st, 6th, and 9th circuits), and a third approach that applies both approaches and has never found their difference to affect the outcome (the Federal Circuit, the D.C. Circuit, and the 2nd and 3rd Circuits). See, e.g., *Lindsay v. Am. Honda Motor Co.*, No. 16-cv-941, 2017 WL 2930962 (E.D. Pa. July 7, 2017).

<sup>11</sup> See, e.g., *Univ. of Mass. Med. Sch. v. L'Oréal S.A.*, No. 17-cv-868, 2018 WL 5919745 (D. Del. Nov. 13, 2018) ("The record before the court does not support plaintiffs' argument that [defendant] introduced the Accused Products into the stream of commerce.").

<sup>12</sup> See, e.g., *Koninklijke KPN NV v. Kyocera Corp.*, No. 17-cv-87, 2017 WL 6447873 (D. Del. Dec. 18, 2017).

<sup>13</sup> *Beverly Hills Fan*, 21 F.3d at 1566.

<sup>14</sup> Id. (quoting *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297–98 (1980)).

<sup>15</sup> See, e.g., *Lambeth Magnetic Structures LLC v. Toshiba Corp.*, No. 14-cv-1526, 2017 WL 782892 (W.D. Pa. Mar. 1, 2017) ("the O'Connor test controls").

<sup>16</sup> *J. McIntyre Mach. Ltd. v. Nicastro*, 564 U.S. 873, 882 (2011) (concurring opinions of Justices Anthony Kennedy and Stephen Breyer).

<sup>17</sup> See, e.g., *RegenLab USA LLC v. Estar Techs. Ltd.*, 335 F. Supp. 3d 526, 545 (S.D.N.Y. 2018) (finding that an exclusive distributorship agreement met the foreseeability requirement of New York's long-arm statute but was insufficient to establish personal jurisdiction under a stream-of-commerce theory).

<sup>18</sup> See, e.g., *Touchcom Inc. v. Bereskin & Parr*, 574 F.3d 1403, 1415 (Fed. Cir. 2009).

<sup>19</sup> See, e.g., *Syngenta Crop Prot. LLC v. Willowood LLC*, 139 F. Supp. 3d 722, 734 (M.D.N.C. 2015) ("[Defendant] chose to direct the allegedly infringing product to the United States market by selling to an affiliate formed explicitly for that purpose. Thus, [defendant] purposefully directed its activities to citizens in the United States.").

<sup>20</sup> *Celgard LLC v. SK Innovation Co.*, 792 F.3d 1373, 1379 (Fed. Cir. 2015).

# U.S. Supreme Court to hear Google bid to end Oracle copyright suit

(Reuters) – The U.S. Supreme Court on Nov. 15 agreed to hear Google’s bid to escape Oracle Corp.’s multibillion-dollar lawsuit accusing Google of infringing software copyrights to build the Android operating system that runs most of the world’s smartphones.

**Google LLC v. Oracle America Inc., No. 18-956, cert. granted, 2019 WL 6042317 (U.S. Nov. 15, 2019).**

Google has appealed a lower court ruling reviving the suit in which Oracle has sought at least \$8 billion in damages.

A jury cleared Google in 2016, but the U.S. Court of Appeals for the Federal Circuit in Washington overturned that decision in 2018, finding that Google’s inclusion of Oracle’s software code in Android did not constitute a fair use under U.S. copyright law. *Oracle Am. Inc. v. Google LLC*, 886 F.3d 1179 (Fed. Cir. 2018).

The justices will hear arguments in the case during their current term, with a ruling due by the end of June.

Oracle and Google, two California-based technology giants with combined annual revenues of more than \$175 billion, have been feuding since Oracle sued for copyright infringement in 2010 in San Francisco federal court. The Supreme Court in 2015 rebuffed a previous Google appeal in the case. *Google Inc. v. Oracle Am. Inc.*, 135 S. Ct. 2887 (2015).

The outcome of the suit could help shape the level of copyright protection for software.

Google, part of Alphabet Inc., said an Oracle victory would chill software innovation. The company welcomed the court’s decision to hear the appeal. “Developers should be able to create applications across platforms and not be locked into one company’s software,” Senior Vice President Kent Walker said in a statement.

Oracle spokeswoman Deborah Hellinger said the company is confident the Supreme Court will preserve software copyrights and “reject Google’s continuing efforts to avoid responsibility for copying Oracle’s innovations.”

Google was backed by Microsoft Corp. and groups that defend the rights of internet users. President Donald Trump’s administration backed Oracle in the case, urging the justices in a written brief to turn away Google’s appeal.

Oracle accused Google of copying thousands of lines of computer code from its popular Java programming language without a license in order to make Android, a competing platform that has harmed Oracle’s business.

The case has whipsawed since the start with Google twice losing at the Federal Circuit. In 2014, the appeals court reversed a federal judge’s ruling that Oracle’s interfaces could not be copyrighted. *Oracle Am. Inc. v. Google Inc.*, 750 F.3d 1339 (Fed. Cir. 2014).

Google appealed that finding to the Supreme Court, but after the Justice Department under former President Barack Obama recommended against hearing the case, the justices declined.

The Federal Circuit in 2018 said Google’s incorporation of Oracle’s “application programming interfaces” was not permitted under the so-called fair use doctrine of the 1976 Copyright Act, rejecting Google’s argument that by adapting them to a mobile

platform it transformed them into something new.

The stakes are now too high for the justices to ignore, Google said in its latest appeal, calling the Federal Circuit’s rulings a “devastating one-two punch at the software industry.”

The shortcut commands that Google copied into Android do not warrant copyright protection because they help developers write programs to work across platforms, a key to software innovation and the information age, Google said in a legal filings, adding that its use was fair.

Google said its actions “prevented Oracle from locking in developers familiar with the Java language into building applications only for Oracle’s platform.”

Oracle said the concerns raised about innovation were overblown and that if a commercial platform developer does not want to license Java, it can make its own platform without copying.

“Apple and Microsoft did it,” Oracle said. **WJ**  
*(Reporting by Andrew Chung and Will Dunham)*

## Related Filings:

Certiorari granted: 2019 WL 6042317  
2019 petition for certiorari: 2019 WL 338902  
2018 Federal Circuit opinion: 886 F.3d 1179  
Certiorari denied: 135 S. Ct. 2887  
2014 Federal Circuit opinion: 750 F.3d 1339  
Complaint: 2010 WL 3355241

# Justices reject bid to clarify when foreign sales induce U.S. patent infringement

By Patrick H.J. Hughes

The U.S. Supreme Court has left in place a decision that a maker of lenses for TV backlighting panels induced infringement of two U.S. patents with sales that took place entirely on foreign soil.

***Enplas Display Device Corp. v. Seoul Semiconductor Co., No. 18-1530, cert. denied, 2019 WL 5686459 (U.S. Nov. 4, 2019).***

The high court on Nov. 4 denied Japan-based Enplas Display Device Corp.'s certiorari petition, which had asked the justices to define the scope of Section 271(b) of the Patent Act, 35 U.S.C.A. § 271(b), known as the "inducement statute."

The U.S. Court of Appeals for the Federal Circuit found Enplas liable for inducing infringement of Seoul Semiconductor Co.'s patents by selling infringing goods to companies outside U.S. borders, despite patent law's "presumption against extraterritoriality." *Enplas Display Device Corp. v. Seoul Semiconductor Co.*, 909 F.3d 398 (Fed. Cir. 2018).

"The Federal Circuit's approach presents a severe risk of conflict between American patent law and the patent law of foreign nations," Enplas warned in its petition.

## INTENT TO INFRINGE?

Seoul owns U.S. Patent Nos. 6,007,209 and 6,473,554, which are directed to backlighting display panels used in TVs, laptops and other devices.

Enplas makes plastic lenses for "light bars" used for backlighting displays in flat-screen TVs. It dominates much of the global market for such lenses, the Federal Circuit opinion said.

After a collaboration between the two companies to produce light bars, Seoul

found Enplas lenses in Seoul's competitors' TVs, some of which were being sold in the U.S., according to the opinion.

Seoul accused Enplas of inducing these competitors into infringing the '209 and '554 patents, and Enplas filed suit in 2013 in the U.S. District Court for the Northern District of California, seeking, among other things, a declaration that its lens sales did not violate U.S. law.

At the District Court, Enplas lost its argument that it did not have the requisite intent to induce infringement in the U.S. *Enplas Display Device Corp. v. Seoul Semiconductor Co.*, No. 13-cv-5038, 2016 WL 4208236 (N.D. Cal. Aug. 10, 2016).

The Federal Circuit affirmed, saying Enplas knew from its "50% worldwide market share" that it was likely its lenses would end up in the U.S.

## PRESUMPTION AGAINST EXTRATERRITORIALITY

In its certiorari petition, Enplas said the Supreme Court made it clear in *Global-Tech Appliances Inc. v. SEB SA*, 563 U.S. 754 (2011), that awareness of a "known risk that the induced acts are infringing" is insufficient for an inducement ruling.

This apparent conflict with the Federal Circuit decision made this case an "excellent vehicle for resolving the proper scope of Section 271(b)," Enplas said.

The presumption against extraterritoriality, a rule that presumes federal laws have only domestic application, has traditionally

applied to patent cases in U.S. courts so American companies can avoid certain international entanglements that could have political consequences, Enplas said.

The Federal Circuit should have used that presumption to find Enplas could not have been liable for inducing patent infringement, the lens maker said.

In response, the patent owner said the presumption had no place at all in this case, calling it a "canon of statutory construction that pertains to the territorial applicability of a statute, not to the type of evidence that may be used to prove a violation."

Enplas was using the extraterritoriality argument only as "window dressing" to disguise the strength of the evidence against it, Seoul said.

Even if the Supreme Court decided it wanted to weigh in on the territorial scope of Section 271(b), Enplas' appeal was not the correct vehicle for defining that scope, Seoul said. **WJ**

### Attorneys:

*Petitioner:* J.C. Rozendaal, Michael E. Joffre and William H. Milliken, Sterne, Kessler, Goldstein & Fox, Washington, DC

### Related Filings:

Certiorari denial: 2019 WL 5686459

Reply brief: 2019 WL 5066748

Opposition brief: 2019 WL 4673406

Certiorari petition: 2019 WL 2450995

Federal Circuit opinion: 909 F.3d 398

District Court opinion: 2016 WL 4208236

# Arthrex remedy 'wrongly decided,' 2 Federal Circuit judges say in pillow patent case

(Reuters) – Two judges of the U.S. Court of Appeals for the Federal Circuit on Nov. 7 criticized three of their colleagues for requiring new hearings in “potentially hundreds” of patent challenges already decided by the U.S. Patent Trial and Appeal Board.

**Bedgear LLC v. Fredman Bros. Furniture Co. Inc., Nos. 2018-2082, 2018-2083 and 2018-2084, 2019 WL 5806893 (Fed. Cir. Nov. 7, 2019).**

Agreeing that they were bound by the Oct. 31 decision in *Arthrex Inc. v. Smith & Nephew Inc.*, No. 2018-2140, 2019 WL 5616010 (Fed. Cir. Oct. 31, 2019), U.S. Circuit Judges Timothy Dyk and Pauline Newman joined U.S. Circuit Judge Kara Farnandez Stoll in a one-paragraph, per curiam order that remanded a pillow-patenting dispute between Bedgear LLC and Fredman Brothers Furniture to the PTAB for a new hearing.

In a separate concurrence, though, Judge Dyk and Judge Newman said the *Arthrex* decision “imposes large and unnecessary burdens on the system” and that the remands are not required by the U.S. Constitution or Supreme Court precedent.

“I respectfully suggest that *Arthrex* was wrongly decided on the issue of remedy,” Judge Dyk wrote in the concurrence.

Attorneys for Bedgear and Fredman Brothers, doing business as Glideaway Sleep Products, did not immediately respond to requests for comment Nov. 7. Bedgear, which lost the case at the PTAB and filed the appeal, is represented by Bryan Cave Leighton Paisner. Fredman Brothers is represented by Erise IP.

In the *Arthrex* decision, Federal Circuit Judges Kimberly Moore, Jimmie Reyna and Raymond Chen held that the level of autonomy given to the PTAB’s administrative patent judges is so high that it violates the appointments clause of the Constitution. The panel fixed that problem by finding statutory restrictions on the removal of APJs to be void, which put them more squarely under the “direction and control” of the director of the U.S. Patent and Trademark Office.

It then remanded the case to the PTAB for a new hearing, by a new panel of judges — a remedy it said would be available in any case where the PTAB had issued a written ruling and the appellant had challenged the judge’s appointment on appeal.

Writing for the *Arthrex* panel, Judge Moore said a remand was required by the U.S. Supreme Court’s 2018 decision in another appointments clause case, *Lucia v. SEC*, 138 S. Ct. 2044 (2018), in which the justices held that administrative law judges must be appointed by the SEC director, not by fellow SEC employees.

However, Judges Dyk and Newman said the *Arthrex* panel missed a key distinction: “the fix in *Lucia* was an agency fix, whereas the fix in *Arthrex* is a judicial fix.”

Agencies, like legislatures, “generally act only prospectively,” Judge Dyk wrote. The SEC director’s reappointment of ALJs could not validate decisions they had already made, so a remand for a new hearing was required.

By contrast, when courts construe a statute, they are explaining what the statute has meant continuously, since it became law, Judge Dyk wrote.

Under cases going back to *Marbury v. Madison*, 5 U.S. 137 (1803), “the statute here must be read as though the PTAB judges had always been constitutionally appointed,” disregarding the unconstitutional restrictions on their removal, the Nov. 7 concurrence said; and “the past opinions rendered by the PTAB should be reviewed on the merits, not vacated for a new hearing.” **WJ**

(Reporting by Barbara Grzincic)

**Attorneys:**

**Appellant:** K. Lee Marshall, Bryan Cave Leighton Paisner LLP, San Francisco, CA; Joseph J. Richetti and Alexander D. Walden, Bryan Cave Leighton Paisner LLP, New York, NY

**Appellee:** Jason R. Mudd and Eric A. Buresh, Erise IP, Overland Park, KS

**Related Filings:**

Federal Circuit opinion: 2019 WL 5806893

## Philips' ultrasound software is being hacked, copyright suit says

By Patrick H.J. Hughes

Medical technology giant Philips has filed a lawsuit in a Washington federal court accusing a medical device repair company of bypassing controls in Philips' software for ultrasound scans.

**Philips North America LLC et al. v. Summit**

**Imaging Inc. et al., No. 19-cv-1745, complaint filed, 2019 WL 5690666 (W.D. Wash. Oct. 29, 2019).**

Summit Imaging Inc. also has falsely telling customers it can provide a "legal alternative" to getting an ultrasound software license from Philips, according to the complaint filed Oct. 29 in the U.S. District Court for the Western District of Washington.

Philips North America LLC and its Netherlands-based parent say the access Summit provides violates Section 1201(a)(1) of the Digital Millennium Copyright Act, 17 U.S.C.A. § 1201(a)(1), which prohibits circumventing technological protection measures to access copyrighted works.

In addition to DMCA violations, Seattle area-based Summit is liable for violating federal trade secret and false-advertising laws and Washington's unfair-competition law, the suit says.

### 'LEGAL SOLUTION'

Philips makes various medical imaging devices including ultrasound systems, CT scanners and X-ray machines.

According to the complaint, Philips' ultrasound scanners are complex devices that require Philips' copyrighted software platforms.

The company uses specific access codes and hardware keys that are granted to some registered users, the complaint says. Summit is not such a user, the suit says.

Instead, Summit created a program that Philips calls a "hacking tool," and trains its customers in how to use the tool to circumvent Philips' access controls and "modify, tamper with and alter Philips' ultrasound systems," the suit says.



REUTERS/Piroschka van de Wouw

The modifications, which Philips says violate Section 1202 of the DMCA, 17 U.S.C.A. § 1202, allow customers to enable certain ultrasound options and add-on features without a license, the suit says.

Summit tells its customers in an online webinar that it knows Philips' software is protected by copyright law, but says its hacking tool provides a "legal solution," according to the complaint.

Summit informs its customers that only the health care provider that owns the ultrasound machines will be held liable for "the behavior of outsourced service providers," the complaint says.

Philips seeks a declaration that what Summit is telling customers is false and an injunction prohibiting Summit from circumventing the access controls for Philips' software and modifying any copyright management information.

It also seeks an accounting, damages, a disgorgement of profits, attorney fees and costs. **WJ**

#### Attorneys:

**Plaintiffs:** Stephen C. Willey, Savitt Bruce & Willey, Seattle, WA; Carla M. Wirtschafter, Reed Smith LLP, Los Angeles, CA; Kirsten R. Rydstrom and Richard A. Graham, Reed Smith LLP, Pittsburgh, PA; Gerard M. Donavan, Reed Smith LLP, Washington, DC

#### Related Filings:

Complaint: 2019 WL 5690666



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## TRADEMARK REGISTRATION

### U.S. Supreme Court to consider blocking Booking.com trademark

(Reuters) – The U.S. Supreme Court on Nov. 8 agreed to consider a bid by a federal agency to prevent the popular hotel reservation website Booking.com, a unit of Booking Holdings Inc., from trademarking the site's name, contending that it is too generic to deserve legal protection.

***Patent and Trademark Office v. Booking.com BV, No. 19-46, cert. granted, 2019 WL 5850636 (U.S. Nov. 8, 2019).***

The justices will hear an appeal by the U.S. Patent and Trademark Office of a lower court decision allowing the trademark because by adding ".com" to the generic word "booking" it became eligible for a trademark.

The online reservation service, based in Amsterdam, began using its name globally in 2006, and filed several trademark applications in 2011 and 2012.

A tribunal of the PTO in 2016 rejected those applications, saying Booking.com referred generically to the common meaning of booking lodging and transportation and cannot be used exclusively through a federal trademark registration.

Under U.S. law, only terms that distinguish a particular product or service from others on the market can be trademarked.

The agency noted that federal courts have rejected trademarks for other similar names, such as hotels.com, mattress.com and lawyers.com.

Booking.com appealed, presenting a survey that showed that 74% of consumers identified Booking.com as a brand name.

The Richmond, Virginia-based 4th U.S. Circuit Court of Appeals sided with the company last February because the name as a whole is understood by the public to refer to a business. *Booking.com BV v. U.S. Patent & Trademark Office*, 915 F.3d 171 (4th Cir. Feb. 27, 2019).

The company, asking the Supreme Court to let the 4th Circuit ruling stand, called itself "one of the best-known travel and accommodations services in the United States."

Appealing to the Supreme Court, the PTO said that the addition of ".com" to a generic word does not render it distinctive. **WJ**

*(Reporting by Andrew Chung)*

**Attorneys:**

*Petitioners:* Sarah T. Harris, Thomas W. Krause, Christina J. Hieber and Molly R. Silfen, U.S. Patent and Trademark Office, Alexandria, VA; Noel J. Francisco, Joseph H. Hunt, Malcolm L. Stewart, Erica L. Ross, Mark R. Freeman and Daniel Tenny, U.S. Department of Justice, Washington, DC

*Respondent:* Jonathan E. Moskin and Eoin Connolly, Foley & Lardner, New York, NY

**Related Filings:**

Cert. granted: 2019 WL 5850636  
Reply brief: 2019 WL 3960719  
Opposition brief: 2019 WL 3854679  
Certiorari petition: 2019 WL 2966240  
4th Circuit opinion: 915 F.3d 171

# Hershey embraces 'kiss' domain after cybersquatting default judgment

By John Fitzgerald

The Hershey Co. has sweet-talked a Pennsylvania federal judge into awarding the famed confectioner a "kiss" domain name after a Ukrainian chocolatier failed to respond to Hershey's cybersquatting charge.

**Hershey Co. et al. v. AnyKiss, No. 18-cv-843, 2019 WL 5692738 (M.D. Pa. Nov. 4, 2019).**

U.S. District Judge Yvette Kane of the Middle District of Pennsylvania on Nov. 4 issued a permanent injunction barring AnyKiss, of Odessa, Ukraine, from using kisschocolaterie.com or any other domain name identical or confusingly similar to a trademark registered by Hershey.

The judge also awarded Hershey \$100,000 in damages, attorney fees and costs.

According to Judge Kane's opinion, AnyKiss attempted to register the kisschocolaterie.com domain with the U.S. Patent and Trademark Office in 2016. The application was denied because of confusion with Hershey's "Kisses" trademark, the opinion said.

Hershey filed suit in April 2018, claiming AnyKiss registered the domain after subsequent attempts to partner with Hershey failed.

The suit accused AnyKiss of violating the Anticybersquatting Consumer Protection Act, 15 U.S.C.A. § 1125(d).

AnyKiss was aware of the Hershey trademark because it had unsuccessfully applied for a "Kiss Chocolaterie" mark, the complaint said.

AnyKiss was served with the lawsuit Aug. 28, 2018, but "did not appear, answer, move, or otherwise respond" to the complaint, the opinion said.

This lack of response led Hershey to file a motion for default judgment, which Judge Kane granted Nov. 4.

### DOMAIN GOES TO HERSHLEY

To enter a default judgment, courts in the 3rd U.S. Circuit Court of Appeals can consider a three-part test established in *Chamberlain v. Giampapa*, 210 F.3d 154 (3d Cir. 2000).

Hershey had presented sufficient evidence to support its cybersquatting claim, the judge said.

Under the test, a judge considers whether the plaintiff would otherwise be prejudiced, whether the defendant's claim is legitimate and whether the defendant's failure to show up in court was the result of "culpable conduct."

Judge Kane also noted that judges can enter a default judgment even without considering the *Chamberlain* test factors, but in this case, they weighed in Hershey's favor.

Hershey had presented sufficient evidence to support its cybersquatting claim, the judge said.

The chocolate giant showed it has famous "Kiss" marks in chocolate categories, that those marks are confusingly similar to the disputed domain and that AnyKiss appeared to be using the domain "with a bad faith intent to profit," the judge said.

Hershey claims its Kisses candies sell in excess of \$7 billion per year. The "Kisses" trademark was registered in the 1980s and



REUTERS/Tim Shaffer

has been used in commerce since 1907, according to USTPO registration documents.

According to its website, AnyKiss was founded in 2015 to sell handmade chocolates.

Given the relationship between the parties and Hershey's worldwide fame, it is implausible that AnyKiss could have failed to realize that kisschocolaterie.com would be confused with the Hershey's product line, the lawsuit said.

The judge agreed with Hershey and said it deserved \$100,000 in statutory damages based on the ACPA violation. **WJ**

#### Attorneys:

*Plaintiff:* Carol S. Young, McNees, Wallace & Nurick LLC, Harrisburg, PA

*Plaintiff:* Paul D. McGrady Jr., Winston & Strawn LLP, Chicago, IL

#### Related Filings:

Opinion: 2019 WL 5692738

Motion for default judgment: 2019 WL 3322320

Complaint: 2018 WL 1872200

# Hong Kong registrant loses 'AAA' domain name to American car service

By Patrick H.J. Hughes

The American Automobile Association Inc., commonly known as Triple-A, has persuaded the World Intellectual Property Organization to award it a domain incorporating "AAA" from a China-based registrant.

**American Automobile Association Inc. v. China Capital Domain Fund Ltd., No. 2019-2209, 2019 WL 5870151 (WIPO Arb. Oct. 31, 2019).**

The registrant of aaaautorental-ucan-rentautorental.com had alleged that in Hong Kong the AAA acronym was most commonly associated with the Asia Art Archive, not the American roadside assistance provider, which failed to show it had trademarks in China.

Nevertheless, the sole panelist appointed by the WIPO Arbitration and Mediation Center said the fact that AAA may be an abbreviation commonly used in many industries is irrelevant.

In this case, the disputed domain name includes words directly related to the services provided by the American car assistance firm, the panel noted.

It also resolves to a website with pay-per-click links to automobile services, some of which are provided by the American firm's competitors, the panel said.

While a registrant can have a legitimate interest in using generic terms such as "auto rental" and its domain name can resolve to a website with PPC links, the panel found China Capital Domain Fund Inc. had not used the domain "genuinely."

### AFFIRMATIVE DUTY

Hong Kong-based China Capital is a "domain investor" that has bought domains in bulk and acquired the disputed domain name in November 2018, according to the decision.

Florida-based Triple-A filed a complaint with WIPO in September, claiming China Capital bought the disputed domain in bad faith, evidenced in part by its history of cybersquatting, the decision said.

For a successful transfer under the rules set forth in the Uniform Domain Name Dispute Resolution Policy, commonly called UDRP, a complainant must prove possession of a trademark that is confusingly similar to the disputed domain.

The complainant also must show the registrant has no legitimate interest in the domain and has been using it in bad faith.

The panel recognized that Triple-A is famous in the United States, where it owns numerous trademark registrations, but said "the acronym 'AAA' does not always refer to the complainant."

However, the panel said the domain dispute was distinguishable from another dispute in which a locksmith used the abbreviation despite the car service's work with car locks.

*Am. Auto. Ass'n Inc. v. Domains By Proxy LLC aka Zaid*, No. D2014-122, 2014 WL 1764836 (WIPO Arb. Apr. 21, 2014).

Triple-A is primarily known for automobile services, such as those in the domain name and at the website that exists at that domain, the panel said.

While China Capital denied it was aware of Triple-A or its trademark when it acquired the disputed domain, the panel said this fact alone would not shield a trademark infringer.

China Capital also argued that the domain was intended to refer to a now-defunct business called AAA Auto Rental—U Can Rent Auto Rental, but the panel said what matters is whether a registrant should have known about another legitimate trademark.

"A simple internet search for 'AAA' would have quickly revealed the complainant's use and rights in AAA in the United States," the panel said.

China Capital's claim that it did not know of the American car service "may or may not be true," the panel said. But domain registrants such as China Capital that make bulk purchases have an affirmative duty to avoid abusive domains, the panel said.

In not avoiding such situations, China Capital was acting in bad faith and using the domain for an interest that was not legitimate, the panel concluded. **WJ**

#### Related Filings:

Decision: 2019 WL 5870151

*See Document Section B (P. 38) for the decision.*

## DATA THEFT

# Marketing research firm can't escape data-theft allegations

By Dave Embree

A Omaha, Nebraska-based marketing research firm must face a suit accusing it of hacking into Washington state-based DiscoverOrg Data LLC's proprietary database and stealing more than 9,300 protected records, a federal judge in Tacoma has ruled.

**DiscoverOrg Data LLC v. Quantum Market Research Inc., No. 19-cv-5656, 2019 WL 5618670 (W.D. Wash. Oct. 31, 2019).**

U.S. District Judge Benjamin H. Settle of the Western District of Washington on Oct. 31 denied Quantum Market Research Inc.'s motion to dismiss, finding that it had sufficient minimum contacts with Washington to support the court's specific personal jurisdiction.

In July 2017, defendant Quantum began sales discussions with Vancouver, Washington-based DiscoverOrg, which provides a subscription database of marketing information for business-to-business sales, according to Judge Settle's order.

Quantum obtained a one-week trial subscription to DiscoverOrg's database but continued to run searches and view proprietary information after the subscription had lapsed, the suit says.

Ultimately, Quantum downloaded more than 9,300 records from the database without authorization, according to the complaint.

DiscoverOrg sued Quantum in Tacoma federal court in July, accusing the marketing research firm of trade-secret theft, copyright infringement, violations of the Computer Fraud and Abuse Act, 18 U.S.C.A. § 1030, and several common law offenses.

### MOTION TO DISMISS FOR LACK OF PERSONAL JURISDICTION

Quantum moved to dismiss the suit in August, arguing that it lacked sufficient minimum contacts with Washington to be subject to specific personal jurisdiction in the state.

The motion stressed that Quantum has no employees or locations in Washington, is not registered to do business there, and has not purposefully directed any action toward the state.

DiscoverOrg disputed that claim in its response motion.

"An intentional tortfeasor is as much subject to the jurisdiction of Washington courts if it steals from DiscoverOrg via its virtual presence as it would be if it had broken into DiscoverOrg's physical offices in Vancouver," the company said.

Judge Settle denied Quantum's dismissal motion, ruling that the company knew or should have known that DiscoverOrg was located in Washington based on the sales discussions Quantum had with DiscoverOrg's personnel before it obtained the trial subscription.

"DiscoverOrg and its operations are embedded in Washington, Quantum developed a relationship with DiscoverOrg, and then allegedly directed harm at DiscoverOrg which would be felt in those embedded operations in Washington and not elsewhere," Judge Settle wrote. **WJ**

#### Attorneys:

*Plaintiff:* John D. Du Wors and Nathaniel E. Durrance, Newman & Du Wors, Seattle, WA

*Defendant:* William T. Hansen, Williams Kastner, Seattle, WA

#### Related Filings:

Order: 2019 WL 5618670

Motion to dismiss: 2019 WL 5692576

Complaint: 2019 WL 5692606



## WESTLAW JOURNAL

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# Travelers must cover 'Kona' false-advertising claims, coffee roaster says

By Jason Schossler

Boyer's Coffee Co. Inc. is urging a Denver federal judge to rule that two Travelers units must cover it for a class-action lawsuit alleging the company improperly uses the name "Kona" to advertise its coffee.

**Travelers Indemnity Co. of America et al. v. Luna Gourmet Coffee & Tea Co. LLC et al., No. 19-cv-2039, response and cross-motion filed, 2019 WL 5702825 (D. Colo. Oct. 30, 2019).**

Travelers Indemnity Co. of America and Travelers Property Casualty Co. of America sued Boyer's on July 15 in the U.S. District for the District of Colorado, seeking to avoid coverage for the suit under policies issued to Boyer's parent company, co-defendant Luna Gourmet Coffee & Tea Co. LLC.

In a motion filed Sept. 30, the insurers argued they are entitled to summary judgment because the class-action suit does not seek damages covered by the policies.

Boyer's opposed the motion Oct. 30 and argued the court should grant its cross-motion for summary judgment instead. The insurers are on the hook for Boyer's defense costs because the underlying allegations "fall squarely" within its policies' coverage for personal and advertising injuries, the company says.

The coffee roaster filed its response and cross-motion after it countersued Travelers on Oct. 4, alleging the insurers' refusal to fund its defense constitutes a breach of their contractual obligations.

### 'KONA' LITIGATION

Boyer's is a defendant in a class-action suit filed by a group of coffee farmers who allege the company markets and packages its coffee products using the term "Kona," even though they contain few or no coffee beans from the Kona District of the Big Island of Hawaii. *Corker v. Costco Wholesale Corp.*,

No. 19-cv-290, *complaint filed*, 2019 WL 2564825 (W.D. Wash. Feb. 27, 2019).

According to the suit, filed in Seattle federal court, the term "Kona" can only be used to describe coffee grown in the Kona District.

But Boyer's and other distributors and retailers are duping consumers by passing off "ordinary commodity coffee" as authentic Kona coffee, the underlying suit says.

This allegedly deceptive practice has flooded the market with counterfeit Kona coffee products and hurts Kona coffee growers by driving the price down sharply for the real product, the farmers say.

They allege claims for false designation of origin, false advertising and unfair competition in violation of the Lanham Act, 11 U.S.C.A. § 1125(a).

### DECLARATORY RELIEF SOUGHT

According to their declaratory complaint, the Travelers units say the defendants sought coverage for the underlying class action under a series of commercial general liability policies issued by Travelers Indemnity Co. that run from Feb. 1, 2016, to Feb. 1, 2020.

The defendants also sought coverage under a series of commercial excess liability policies issued by Travelers Property Casualty Co. that cover the same period, the complaint says.

But the plaintiffs argue in their suit and summary-judgment motion that Boyer's is owed no defense for the farmers' action because it does not allege any personal and advertising injuries as defined in the policies.

### COVERED CLAIMS?

Boyer's says in its response and cross-motion that it disagrees with this assertion.

For one, it says, the suit clearly alleges injuries resulting from Boyer's publication of material in its advertisements.

"The entire focus of the plaintiffs' claims is the economic injury they claim to have suffered due to Boyer's use of the phrase 'Kona' in its marketing and packaging," Boyer's says.

The coffee roaster also says Travelers has failed to prove that any policy exclusions apply to eliminate its duty to defend.

In its summary judgment motion, Travelers argued that an exclusion for a "knowing violation of rights of another" precludes coverage for the farmers' action.

This exclusion is inapplicable, Boyer's says, because the farmers do not allege that the company intended for them to suffer injury.

Similarly, Travelers cannot show that an exclusion for "material published with knowledge of falsity" applies because there is no allegation that Boyer's knew its advertising was false, according to the company. **WJ**

#### Attorneys:

*Plaintiffs:* Evan B. Stephenson, Wheeler Trigg O'Donnell LLP, Denver, CO

*Defendants:* Lauren E. Tucker McCubbin, Polsinelli PC, Kansas City, MO

#### Related Filings:

Response and cross-motion for summary judgment: 2019 WL 5702825

Motion for summary judgment: 2019 WL 5061064

Complaint: 2019 WL 3174707

# NCAA board votes to let student athletes endorse brands, accept sponsors

(Reuters) – U.S. college athletes can profit from brand sponsorships and endorsement deals under a new rule approved Oct. 29 by the governing board of the NCAA, the organization that regulates U.S. collegiate sports.

The unanimous vote follows growing pressure on the National Collegiate Athletic Association to lift restrictions on athletes that have kept them from sharing in the financial rewards generated by their performances.

The change will likely benefit athletes in high-profile sports such as football and basketball, which drive billions of dollars in advertising and revenue for media outlets, schools, coaches and the NCAA itself.

"It's a beautiful day for all college athletes going forward from this day on!" Los Angeles Lakers star LeBron James wrote on Twitter.

James, who bypassed college basketball and went straight from high school to the National Basketball Association, cautiously applauded the move as "not a victory but a start."

California has already approved legislation to allow student athletes to earn endorsement money, long forbidden by the NCAA as part of its mission to protect the amateur status of collegiate sports.

The NCAA board, composed mostly of university officials, voted to allow student athletes to benefit from the use of their name, image or likeness. It directed each of the NCAA's three divisions to update their bylaws no later than January 2021.

"The board's action today creates a path to enhance opportunities for student-athletes

while ensuring they compete against students and not professionals," NCAA President Mark Emmert said in a statement on the website ncaa.org.

The Indianapolis-based NCAA reported total revenues of more than \$1 billion last year, about 80% of which came from television and marketing rights fees.

California in September became the first U.S. state to give college athletes the potentially lucrative opportunity to earn endorsement money, with Democratic Gov. Gavin Newsom signing legislation into law that would take effect in 2023. Sponsors said it could encourage star athletes to stay in school rather than dropping out to turn professional.

New Jersey quickly moved to follow suit, with lawmakers on Oct. 24 introducing the "New Jersey Fair Play Act," to allow student-athletes compensation for use of their names or likenesses and also the ability to hire their own agent or lawyer.

Similar bills were under consideration in Florida, New York, Pennsylvania, South Carolina, Minnesota and in Congress, according to media reports.

The NCAA said "modernization" of its guidelines should "reaffirm that student-athletes are students first and not employees of the university."



CREDIT/Robert Deutsch-USA TODAY Sports

"The board's action today creates a path to enhance opportunities for student-athletes while ensuring they compete against students and not professionals," NCAA President Mark Emmert said.

The NCAA board voted after hearing the recommendations from a working group that gathered input from student-athletes, coaches, college presidents, faculty and commissioners from the three divisions, the NCAA said. **WJ**

*(Reporting by Barbara Goldberg)*

## Sovereign immunity

CONTINUED FROM PAGE 1

Even though the court had ruled in *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627 (1999), that Congress lacked the authority to abrogate sovereign immunity with the Patent Remedy Act, the IP clause, U.S. Const. art. I, § 8, cl. 8, does grant congressional authority to do so, he said.

The IP clause is unique because the Constitution's framers intended to secure exclusive rights to copyright holders against everyone, including states, Shaffer said.

But Justice Ruth Bader Ginsburg said the same clause was at issue in *Florida Prepaid*. She also noted the court's ruling in *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), which said Congress cannot rely on Article I powers to abrogate state sovereign immunity.

Justices Elena Kagan, Samuel Alito and Brett Kavanaugh all asked whether Shaffer was advocating for the overrule of *Florida Prepaid*. Shaffer admitted so and characterized the holding in *Seminole Tribe* as "erroneous dicta."

### CONSTITUTIONAL VIOLATION?

The discussion then turned to the question of whether Congress validly enacted the CRCA through the due process clause of the 14th Amendment, U.S. Const. amend. XIV, § 5.

Justice Alito, noting that the CRCA's legislative record identified only 16 instances of state infringement, questioned whether they amounted to a constitutional problem

serious enough to warrant a due process-based abrogation of sovereign immunity.

He also asked if every instance of copyright infringement by a state government rose to the level of a constitutional violation.

Justice Sonia Sotomayor called North Carolina's definition of the shipwreck footage as a public record "deeply troubling."

Shaffer said a government action that denies someone a protected property right without compensation is a due process problem.

He also argued that since the CRCA's enactment in 1990, states have infringed copyrighted works in much higher numbers, saying Congress at the time "saw the tip of the iceberg of this problem."

### 'FUNDAMENTAL FEATURE' OF THE CONSTITUTION

Arguing for North Carolina, Deputy Solicitor General Ryan Park called state sovereign immunity a "fundamental feature" of the Constitution.

He said there was no evidence the IP clause, which gives Congress the power to "promote the progress of science and the useful arts," was meant to allow copyright holders to collect damages from infringing states.

Copyright infringement rarely rises to a constitutional violation, and only deliberate property deprivation can violate the Constitution, he said, prompting a discussion over intent.

Justice Kagan questioned Park closely over whether a statute shielding intentional infringement would meet the due process standard.

Justice Sonia Sotomayor called North Carolina's definition of the shipwreck footage as a public record "deeply troubling." "It's a state saying, 'even if I'm infringing, you can't get anything,'" she said.

### ADEQUATE REMEDIES?

Park said the CRCA calls for "exorbitant" damages that burden state governments and that the ordinary remedy for a constitutional violation is an injunction. Justice Stephen Breyer noted that injunctions would occur after the fact, doing nothing to deter state actors.

Justice Kavanaugh asked Park how a ruling in the state's favor would square with a copyright holder's exclusive right, remarking that such a ruling would presumably encourage states to copy copyrighted works.

Park said an additional remedy could be to sue state officials but admitted that they would be shielded by qualified immunity. **WJ**

#### Attorneys:

*Petitioners:* Derek L. Shaffer, Quinn Emanuel Urquhart & Sullivan, Washington, DC

*Respondents:* Ryan Park, North Carolina Department of Justice, Raleigh, NC

#### Related Filings:

Oral argument: 2019 WL 5788662  
4th Circuit opinion: 895 F.3d 337

*See Document Section A (P. 19) for the oral argument.*

## Attorneys predict outcome of *Allen v. Cooper*

The U.S. Supreme Court will release its ruling over *Allen v. Cooper*, No. 18-877, oral argument held, 2019 WL 5788662 (U.S. Nov. 5, 2019), before July 2020.

These attorneys, who are not involved in the dispute, offer their predictions.



### **Margaret Esquenet, Finnegan, Henderson, Farabow, Garrett & Dunner, Washington**

While it is always difficult to predict how the court will decide, I think that the oral argument in *Allen v. Cooper* provides interesting insights regarding the issues the justices are weighing. On one side, the court is openly concerned about giving states the green light to freely — and without consequence — infringe privately held copyrights. On the other hand, the justices are reluctant to part with precedent and directly or indirectly overturn *Florida Prepaid* or to undermine state sovereign immunity with a new, potentially broadly applicable constitutional law decision.



### **Anthony Biller, Michael Best, Raleigh, North Carolina**

I predict the court will reverse the Fourth Circuit in *Allen v. Cooper*, return the booty to the author, and abrogate *Florida Prepaid*. I suspect that Justice Thomas will dissent and be in favor of affirming the Fourth Circuit, since he is the only remaining justice from the *Florida Prepaid* majority opinion and his original intent jurisprudence favors a more robust protection of state rights viz. the federal government.



### **John Polito, Morgan, Lewis & Bockius, San Francisco**

The court demonstrated its understanding of the practical differences between copyright infringement by a state and patent infringement by a state: showing a copyrighted movie or distributing a copyrighted book takes far less investment and expertise than exercising a patented method or creating a patented drug. But there did not appear to be any consensus about how (if at all) to craft an outcome that would treat patent and copyright infringement differently as a constitutional matter.



### **Britt Anderson, Perkins Coie, Palo Alto, California**

Throughout the oral argument, the Supreme Court justices appeared highly concerned about the lack of alternative remedies available to copyright holders if the Copyright Remedy Clarification Act were not upheld. ... Copyright holders and rights owners facing issues relating to use of copyrighted materials by state governments will not take any solace in this close oral argument, and should instead focus on contractual protections with state governments to govern the use of copyrighted works.

## CASE AND DOCUMENT INDEX

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<i>Allen et al. v. Cooper et al.</i> , No. 18-877, oral argument held, 2019 WL 5788662 (U.S. Nov. 5, 2019).....	1
<b>Document Section A</b> .....	19
<i>American Automobile Association Inc. v. China Capital Domain Fund Ltd.</i> , No. 2019-2209, 2019 WL 5870151 (WIPO Arb. Oct. 31, 2019).....	12
<b>Document Section B</b> .....	38
<i>Bedgear LLC v. Fredman Bros. Furniture Co. Inc.</i> , Nos. 2018-2082, 2018-2083 and 2018-2084, 2019 WL 5806893 (Fed. Cir. Nov. 7, 2019) .....	8
<i>DiscoverOrg Data LLC v. Quantum Market Research Inc.</i> , No. 19-cv-5656, 2019 WL 5618670 (W.D. Wash. Oct. 31, 2019).....	13
<i>Enplas Display Device Corp. v. Seoul Semiconductor Co.</i> , No. 18-1530, cert. denied, 2019 WL 5686459 (U.S. Nov. 4, 2019).....	7
<i>Google LLC v. Oracle America Inc.</i> , No. 18-956, cert. granted, 2019 WL 6042317 (U.S. Nov. 15, 2019).....	6
<i>Hershey Co. et al. v. AnyKiss</i> , No. 18-cv-843, 2019 WL 5692738 (M.D. Pa. Nov. 4, 2019) .....	11
<i>Patent and Trademark Office v. Booking.com BV</i> , No. 19-46, cert. granted, 2019 WL 5850636 (U.S. Nov. 8, 2019).....	10
<i>Philips North America LLC et al. v. Summit Imaging Inc. et al.</i> , No. 19-cv-1745, complaint filed, 2019 WL 5690666 (W.D. Wash. Oct. 29, 2019).....	9
<i>Travelers Indemnity Co. of America et al. v. Luna Gourmet Coffee &amp; Tea Co. LLC et al.</i> , No. 19-cv-2039, response and cross-motion filed, 2019 WL 5702825 (D. Colo. Oct. 30, 2019).....	14

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# ALLEN

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2019 WL 5727279 (U.S.) (Oral Argument)

Supreme Court of the United States.

Frederick L. ALLEN, et al., Petitioners,

v.

Roy A. COOPER, III, Governor of North Carolina, et al., Respondents.

No. 18-877.

November 5, 2019.

## **Oral Argument**

Appearances:

Derek L. Shaffer, Esq., Washington, D.C.; on behalf of the Petitioners.Ryan Park, Deputy Solicitor General, Raleigh, North Carolina; on behalf of the Respondents.

\*1 The above-entitled matter came on for oral argument before the Supreme Court of the United States at 11:04 a.m.

## CONTENTS

ORAL ARGUMENT OF DEREK L. SHAFFER ON BEHALF OF THE PETITIONERS .....	19
ORAL ARGUMENT OF RYAN PARK ON BEHALF OF THE RESPONDENTS .....	28
REBUTTAL ARGUMENT OF DEREK L. SHAFFER ON BEHALF OF PETITIONERS .....	36

## **\*3 PROCEEDINGS**

(11:04 a.m.)

CHIEF JUSTICE ROBERTS: We'll hear argument next in Case 18-877, Allen versus Cooper.

Mr. Shaffer.

### **ORAL ARGUMENT OF DEREK L. SHAFFER ON BEHALF OF THE PETITIONERS**

MR. SHAFFER: Mr. Chief Justice, and may it please the Court:

When states infringe the exclusive federal rights that Congress is charged with securing, Congress can make states pay for doing so. That's our respectful submission today, one that follows from the Constitution's text and affords ample basis for this Court to uphold the work Congress did in enacting the CRCA.

Article I, Section 8, clause 8, what we're calling the intellectual property clause, is unique within Article I in laying down an express constitutional mandate for Congress to protect specified private property rights against any and all intrusion.

Consider just how pointed and clear the constitutional text is. Congress is not **\*4** only to be granting copyrights but securing them, and the resulting rights by definition are meant to be exclusive rights. Exclusive against whom, Your Honors? Exclusive against all comers, exclusive against the world, including the government and including states.

And this exercise of congressional power serves the express constitutional purpose to promote progress. How? By affording monetary recompense to copyright holders. The framers thus made very clear that all those wanting to use an author's copyright are meant to be paying money for doing so.

This clause's text signals a plan of the convention waiver like no other in Article I. For states to retain immunity to avoid paying for infringing the very same exclusive rights that Congress is meant to secure would be incompatible with the text as fixed and understood by the framers.

And this Court has already so recognized in substance. Going back to 1888, in *United States v. Palmer*, the Court said in holding the federal government monetarily liable for infringing patents that Congress's power, **\*5** the same power we were just talking about, could not be affected if the government had a reserve right to infringe. Same reasoning holds for states, Your Honors.

And in *Goldstein v. California* in 1973, the Court said -- and, again, in -- here discussing copyrights -- when Congress grants an exclusive right or monopoly, its effects are pervasive. No citizen or state may escape its reach.

JUSTICE GINSBURG: All -- all that is -- would be highly persuasive if we didn't have the patent decision, the Florida Prepaid decision. It is the very same clause. It's the very same secure. It's the very same exclusivity.

MR. SHAFFER: Correct, Justice Ginsburg. But -- but the Court was not examining the text. The Court was not examining the clause. In fact, it didn't even grant review on the question whether the Article I basis for the Patent Remedy Act would be a valid basis. That wasn't before the Court. It wasn't even raised before the Court.

And so all the Court did, Justice **\*6** Ginsburg, was refer back to *Seminole Tribe*, that the sweeping assumption of *Seminole Tribe* that no Article I clause could ever supply a basis for abrogation. That's the same assumption that the Court in *Katz* more recently called dicta and held to be erroneous dicta, an erroneous assumption, which is the only way that the Court was able to analyze the specifics of the Bankruptcy Clause and find that it did reflect a plan of the convention waiver --

JUSTICE GINSBURG: In -- in --

MR. SHAFFER: -- and a basis for abrogation.

JUSTICE GINSBURG: -- in *Katz*, the -- the Court concentrated on the bankruptcy authority as a unique authority. We have *Seminole*, which is across the board, and then we have the exception for the Bankruptcy Clause.

Now are you asking us to go through all of the Article III authority and take them one by one? Isn't *Katz* more properly read as a bankruptcy exception to the *Seminole Tribe* rule?

MR. SHAFFER: Your Honor, we rely upon the methodology of *Katz* and we rely upon the upfront holding of *Katz*. We take it to be a **\*7** holding that, in fact, what *Seminole Tribe* had said about no Article I power supplying a basis for abrogation, that that was dicta, and that was an erroneous assumption.

In fact, the relevant portion of *Seminole Tribe*, as both the majority and the dissent in that case recognized, it dealt with the Copyright Clause and the Bankruptcy Clause and the commerce power all in the same breath. It was the same --

JUSTICE KAGAN: And do you -- because I read the erroneous dicta language -- maybe I'm misreading it, so you can tell me how -- as just a reference to the statements in *Seminole Tribe* about the Bankruptcy Clause.

MR. SHAFFER: It's the same sentences, Justice Kagan. It's the same exact portion of *Seminole Tribe* that dealt with all Article I clauses in the same breath.

And, in fact, in Justice Stevens' dissent in -- I think it was the first footnote of it -- he noted that the Seminole Tribe decision by its terms would apply to the commerce -- would apply to the Copyright Clause and to the Bankruptcy Clause, and Justice \*8 Rehnquist, I think -- and Chief Justice Rehnquist, in Footnote 16, I think, engaged that assumption and said, yes, essentially, no big deal, but that is the necessary upshot of the Seminole Tribe holding as it was articulated by the Court.

And that's why I think, in Katz, this Court had to deal right upfront with whether that assumption held or not, and it rejected it as erroneous.

But, Justice Ginsburg, Justice Kagan, let me assure the Court there is no other clause in Article I like this one. There is no other clause that is as pointed. There is no other clause that contemplates that there will be private property rights --

JUSTICE KAGAN: But if you're --

JUSTICE KAVANAUGH: What about --

JUSTICE KAGAN: -- if you're right -- if you are right, we would then have to go back to Florida Prepaid, right, and topple that rule?

MR. SHAFFER: It would be certainly open to folks in patent cases to make that argument, Justice Kagan.

JUSTICE KAGAN: But how -- how could \*9 -- how could we have the two rules going simultaneously?

MR. SHAFFER: That would be my prediction. My prediction is that, ultimately, the Patent Remedy Act would be revisited and properly upheld as a valid exercise -- exercise of Congress's Article I power.

JUSTICE ALITO: So, basically, you're asking us to overrule Florida Prepaid?

MR. SHAFFER: I'm asking this Court to follow Katz, Justice Alito, where I think Florida Prepaid was overruled in relevant part and certainly --

JUSTICE ALITO: You think Katz overruled Florida Prepaid?

MR. SHAFFER: I think it -- it overruled -- it overruled the basis for Florida Prepaid. The -- the precedential foundation for Florida Prepaid was solely the relevant portion of Seminole Tribe. That's exactly what the Court was -- was, I think, calling erroneous -- erroneous dicta and rejected.

So I take the holding of Katz to have totally undermined the foundation --

JUSTICE ALITO: So you --

\*10 MR. SHAFFER: -- of Florida Prepaid.

JUSTICE ALITO: -- you think the state of the law is that every Article I, Section 8 power would have to be considered independently and Florida Prepaid may hold on for a while as a poorly reasoned exception to that rule but ultimately would have to be overruled to bring it in line with the position you're asking us to adopt today?

MR. SHAFFER: I have only one friendly amendment to Your Honor's assumption, which is I don't think that there is any other Article I clause that reflects a plan of the convention waiver in the sense that we're discussing, in terms of the constitutional text and the necessary implications of it, because, for the reasons that this Court has already recognized, we think it is totally incompatible with the framers' text and the framers' contemplation to say that there's any such thing as an exclusive private property right secured by the United States Congress that states are free to infringe without pay. I think that would have been antithetical to the framers' conception.

That's our respectful submission on \*11 Article I. And if the Court doesn't have other questions about that, I'll move on to --

JUSTICE KAVANAUGH: Well, do you think Florida Prepaid is subject to our usual stare decisis rules or not?

MR. SHAFFER: Well, Justice Kavanaugh, obviously, the Court will decide what is its precedent. We read Florida Prepaid as not having really squarely addressed this question. I don't think Florida Prepaid reached a holding on the Article I point because the question was not before the Court there.

JUSTICE KAVANAUGH: Well, the Court said the Patent Remedy Act cannot be sustained under either the Commerce Clause or the Patent Clause. Before that, it said Seminole Tribe makes clear that Congress may not abrogate state sovereign immunity pursuant to its Article I powers.

MR. SHAFFER: It said that without the question having been presented and without any party arguing the question, which is why I -- I would respectfully question whether it's truly a holding, Justice Kavanaugh.

But, if it was a holding, it was, just \*12 as Your Honor articulated it, based solely on Seminole Tribe, the very same aspect of Seminole Tribe that we read the Court as revisiting and overruling in Katz. But the Court will decide the status of its precedent. If it has any qualms about the Article I basis for the CRCA, I would ask the Court to sustain the CRCA on the strength of the --

JUSTICE SOTOMAYOR: Could you tell me --

MR. SHAFFER: -- Section 5 of the Fourteenth Amendment basis.

JUSTICE SOTOMAYOR: -- can you articulate what "plan of the convention" means to you? I know what it means in Katz. And -- and they look to a textual foothold, the ability of -- ability of habeas courts to grant relief to state prisoners. So that's a clear intrusion on states.

I don't see the same thing in the intellectual property provision. In fact, for 200 years, there was concurrent state and federal jurisdiction. That seems to cut against your argument that somehow the founders thought that this was an exclusive federal right.

\*13 MR. SHAFFER: Take those in turn, Justice Sotomayor.

JUSTICE SOTOMAYOR: Or exclusively, an exclusive right to the federal government.

MR. SHAFFER: A plan of the convention waiver refers to some reflection that states were surrendering their back-dropped default sovereign immunity in a discrete respect as part of the constitutional convention --

JUSTICE KAGAN: You don't think --

MR. SHAFFER: -- and what came out of it.

JUSTICE SOTOMAYOR: -- that exclusive jurisdiction would have signaled that more clearly --

MR. SHAFFER: I --

JUSTICE SOTOMAYOR: -- than concurrent jurisdiction for over 200 years?

MR. SHAFFER: I think that our textual basis for the abrogation is stronger than it was in Katz. In Katz, as you say, Your Honor, I -- I don't think it was in the bankruptcy clause, the plan of the convention waiver.

And as to habeas jurisdiction, that was not about monetary relief against states. \*14 That was not about hauling states into federal court. It was just about granting relief, habeas relief, to get prisoners out of state prison.

I -- I don't think that that's anywhere near as on point as what you have with the intellectual property clause, where clearly the framers' contemplation is these are exclusive rights that anyone who may infringe has to pay for.

Congress's job is to secure those rights. It cannot do that without abrogating state sovereignty --

JUSTICE SOTOMAYOR: Well, you're assuming --

MR. SHAFFER: -- within this discrete realm.

JUSTICE SOTOMAYOR: -- the latter part you're assuming. Nothing about it -- it says securing the copyright, but it doesn't say making sure that the copyright owners are paid.

MR. SHAFFER: To promote progress. To promote progress, Justice Sotomayor. It is a preamble that is not echoed anywhere else in Article I.

\*15 JUSTICE SOTOMAYOR: Some would say that injunctive relief promotes progress.

MR. SHAFFER: Well, James Madison --

JUSTICE SOTOMAYOR: That's a damages question. That's not a -- an issue of what promotes the arts.

MR. SHAFFER: James Madison's conception reflected in the text of what the monopoly would achieve is that the authors and inventors would get paid for their inventions. They would get paid for their creations.

And as the Court, as I indicated, back in 1888 recognized, it is antithetical to that to say that government of any kind, certainly the federal government, can infringe those exclusive rights that -- that Congress is to be securing.

But, as to Section 5 of the Fourteenth Amendment, Your Honor, this is a case and a legislative record different from what the Court had before it in Florida Prepaid.

It is much stronger in relevant part. In part, that's because of the fundamental difference between copyright law at issue in this case and patent law that the Court was \*16 looking at in Florida Prepaid.

In part, it's also because you have a legislative record that is so much stronger, Your Honors.

You had the Register of Copyrights, Ralph Oman, testifying to Congress preparing a report based on a 50-state survey and in -- a -- a very conscientious compilation of comments and studies about what was happening in federal copyrights and why this legislation was necessary to protect them.

JUSTICE ALITO: But you tell us in your brief that when Congress enacted the CRCA it had "16 examples over the previous decade of reported state infringement in 13 states."

Is -- is that enough to identify a serious constitutional problem?

MR. SHAFFER: I think so, Justice Alito. I think, first of all, as to this serious constitutional problem, you have federal property rights that are -- have been granted and that are private property rights, and states are infringing without paying for them.

That is a fundamental intrusion. That is a fundamental constitutional problem. And I \*17 think Congress, if it has a remedy that is conscientiously tailored around that, should have, as the Court put it in City of Boerne --

JUSTICE ALITO: Sixteen examples is not enough. And the -- the mere fact that there were -- that there were state infringements doesn't necessarily mean that there were state violations of the constitutional right, does it?

MR. SHAFFER: We think it follows in the copyright context, Justice Alito.

JUSTICE ALITO: Every -- every infringement is a violation -- every infringement by a state or by the federal government is a constitutional violation?

MR. SHAFFER: The nature of the exclusive intellectual property right is that one will have the right respected or else be compensated for an intrusion. That is the nature of intellectual property.

And for copyright in particular, Justice Alito, infringement by definition means someone has copied the protected original expression of the copyright holder. And, yes, we think that that is a constitutional violation pretty much every time.

\*18 JUSTICE ALITO: But what if it's negligent?

MR. SHAFFER: I don't think it -- Justice Alito, I don't think it can be negligent in a relevant sense.

The -- the -- the government may permit procedural due process violations by doing all sorts of things negligently, denying notice, denying opportunity to be heard, a spurious welfare cancellation. Those things offend procedural due process. But there's also a takings basis for this legislation. And the Court has been very clear that a taking can occur even through a regulatory taking, as in Penn Central.

And so, if there is a predictable result of a government action that denies someone their protected property rights and does that without compensation, that is a Fourteenth Amendment problem.

I submit that that's true in every case, but it's certainly true in most cases. And the Court has been very clear that Congress has prophylactic and deterrent rights under its Section 5 power.

\*19 And I would also note, as to the 16 examples that we're talking about, those examples are really in the nature of reports, Justice Alito.

So one of those reports was from the Motion Picture Association of America, which said that films were being shown by state prison authorities widely.

And when that was pointed out to multiple states, two of those states came back and said, we're going to stand on our Eleventh Amendment sovereign immunity.

One of those is North Carolina, one of those states. That's one of the episodes that was reported.

And just two other points about this.

The report from Ralph Oman came in 1988. That was three years after the Court's decision in Atascadero. So the register was clear, the former register was clear, and the Congress was clear that this was an emerging problem, and what they had in the way of examples was within a three-year band of time.

JUSTICE ALITO: But do you think that record is stronger than the record in City of \*20 Boerne?

MR. SHAFFER: Your Honor, I think the intrusion here is much lighter than in City of Boerne.

Here, all that states are being held to substantively is the same rule they have been under since the founding: Don't infringe copyrights. Everyone agrees that that is an obligation of the states.

JUSTICE ALITO: Well, that may be true, but the question is, is there greater congruence and proportionality here than there was in City of Boerne, or maybe that we should reexamine City of Boerne too? That's a --

MR. SHAFFER: I'm not urging that.

JUSTICE ALITO: It's a -- okay.

MR. SHAFFER: I'm -- I'm not urging that, and I don't think the Court needs to reexamine that because there isn't the same sort of congruence and proportionality problem.

Part of what was at issue I think in City of Boerne, and rightfully concerned the Court, is Congress was redefining the substantive law. It was intruding upon the substantive conduct of states and basically \*21 changing the substantive rules of what would constitute a constitutional violation.

That's not what you have here, respectfully, Justice Alito. This is Congress looking at something that is a cardinal sin. It is states infringing federal copyrights, protected federal property.

And it's -- it's enacting a remedy that is precisely tailored to that. States have to pay what any private infringer would pay. States have to pay what they would insist an infringer of their protected copyrights pay.

That's all Congress was doing in the CRCA. And I don't think that there should be the same sort of empirical scepticism on the Court's part, especially given the fact that Congress was so clear about why the problem was newly emerging and why, to use the words that are found in the legislative record, this was just the tip of the iceberg, because copyright holders, small businesses, individual authors, did not have the means, did not have the incentives to be going to court and reporting instances of deprivation.

JUSTICE GINSBURG: You -- you said it \*22 was inevitably intentional copying. But North Carolina says that it used the copyrighted works only for educational purposes and it got that right from the settlement that the parties reached.

So that sounds like North Carolina is saying, we -- we -- far from intentionally copying, we thought we were just carrying out the rights we had under the settlement agreement.

MR. SHAFFER: Your Honor, that's what they say. Of course, we're here on a complaint. We're here on a motion to dismiss that was granted. And -- and we are entitled to have all inferences drawn in favor of the allegations of the complaint.

And if Your Honor looks at the settlement agreement, it's very clear that it needed -- there needed to be watermarks and timestamps that were on North -- on any images that North Carolina might use. That was not on the images that they were using.

When copyright infringement was pointed out to them and they were caught red handed with that, they returned to infringement. \*23 The infringement kept up even after the filing of the lawsuit. That's in the complaint too.

Blackbeard's law was then passed by North Carolina to make sure that they could get out from under the settlement agreement and they could basically get off the hook for liability for their infringement. That, too, is in the complaint. That's a defense that North Carolina raised in a parallel state court suit. They pointed to Blackbeard's law to basically evade any liability for their copyright infringement.

And so, if you look at the complaint, I'd point the Court to paragraphs 73 through 75, and to paragraph 80, it is explicit that these were intentional uncompensated infringements by the state and that they were unconstitutional in violating both the Fourteenth Amendment and the takings clause. And that's --

JUSTICE KAGAN: Mr. Shaffer -- please.

MR. SHAFFER: I'm sorry, Justice Kagan. I was just going to say under the rationale that the Court articulated in U.S. v. Georgia, Tennessee v. Lane, at the very least it should be open to my clients to be able to proceed on this complaint and show that there \*24 was something unconstitutional here, Justice Alito --

JUSTICE KAGAN: How --

MR. SHAFFER: -- and the CRCA is valid as to that. Sorry, Justice Kagan.

JUSTICE KAGAN: How -- how do we figure out how much is enough in a legislative record? You said these 16 instances are enough. In Florida Prepaid, I believe there were eight instances, and we said that wasn't enough.

Now what's the difference between the two --

MR. SHAFFER: I think that --

JUSTICE KAGAN: -- other than eight, you know?

MR. SHAFFER: -- part of it is the fundamental difference between patents and copyrights. In -- in Florida Prepaid, the Court's dealing with a body of law where states can be totally innocent in their infringement. They could independently arrive at an invention, they could have no awareness that anyone else came first, you're still going to be liable for patent infringement.

Copyright law by definition is much \*25 more circumscribed. For there to be infringement, it requires that a state have -- have copied the original expression of someone else. Absent that, we're not talking about a copyright violation.

JUSTICE KAGAN: Yeah, because you could look at 16 as a really low number. There are 50 states, and if 16 of them infringed once, that gets you to 16. That wouldn't strike me as a major national problem.

MR. SHAFFER: It was reported -- there were 16 reports oftentimes of multiple instances of infringement or bad-faith conduct by states. That's encompassed within the 16 that we're referring to.

And as to that, there were dozens of comments that were received about is this a bigger problem, is this an increasing problem? And Congress, per the Register, found that, yes, it was.

And it might be different, Justice Kagan, if there were 16 examples after three decades had passed, but the reality is Congress saw the tip of the iceberg of this problem. It saw something that was growing quickly and said \*26 this is a serious problem for the Fourteenth Amendment; we're going to put remedies in place in order to stop it, in order to deter it.

And you have from the amici on our side a whole chorus of industry associations, including the Chamber of Commerce, including the Copyright Alliance, the way that this iceberg has grown much, much bigger.

JUSTICE KAGAN: But how --

MR. SHAFFER: Congress took exactly the --

JUSTICE KAGAN: -- do we think about that? Because a lot of that is not in the record. Do we close our eyes to that? Do we act like a trial court with respect to those sorts of facts? What do we do?

MR. SHAFFER: You have a clear rationale from Congress in the record, which is that there was a newly emerging problem and a tip of the iceberg, and Congress wanted to ward it off, Justice Kagan.

And perhaps in a case like City of Boerne, the Court might be skeptical as to whether this was a good-faith, sound prediction by Congress or whether it was paranoia or \*27 whether it was pretextual.

I think the Court should be heartened here, Justice Kagan, by the fact that exactly what Congress feared would come to pass has come to pass over and over and over again. And there's a one-sided chorus on this. It just confirms the reality and the soundness of Congress's prediction.

JUSTICE BREYER: Why hasn't there -- after Florida Prepaid, why -- why -- why do you think -- why has there not been, have not been, many, many instances in which states decide, well, look at all this text stuff, it's fabulous, we'll just copy all the patents? Why not?

MR. SHAFFER: Justice Breyer, there has been a lot -- I mean, there has been a lot of that. And you have that from the amici. And I think it's also influenced licensing entities.

JUSTICE BREYER: All over California. Why doesn't California have a budget problem? We'll just take all the Silicon Valley material and -- and we'll copy it.

MR. SHAFFER: If you read from Dow Jones -- I -- I committed to --

\*28 JUSTICE BREYER: They're doing it?

MR. SHAFFER: Your Honor, that's what they did tens of thousands of times over with --

JUSTICE BREYER: I'm not talking about copyright. I'm talking about patents.

MR. SHAFFER: As to patents, I don't think that -- that states are in the patent business to the same extent, Justice Breyer. I don't --

JUSTICE BREYER: Why don't they -- why don't they -- here's the solution to all their budget problems?

MR. SHAFFER: Well, maybe they're afraid that this Court might be there at the end of the day to answer unresolved questions after Florida Prepaid.

JUSTICE BREYER: Why? What question? We apparently said they could go do it.

MR. SHAFFER: Well, we think that there's still an Article I -- a question as to the Article I basis. That's what we're respectfully urging. And, certainly, Congress --

JUSTICE BREYER: I, of course, dissented. \*29 (Laughter.)

MR. SHAFFER: We -- I know it well, Justice Breyer.

JUSTICE ALITO: Well, you -- what you say raises an interesting question under Section 5 of the Fourteenth Amendment. When we have decided that the -- the congressional record at the time of an enactment that attempts to rely on Congress's Section 5 power is insufficient, and in subsequent years there are events that would have made the record a lot stronger, what does that do to the decision? Does that -- does that mean that it's -- it's subject to reexamination based on what has happened after that point?

So why should we look at events that occurred after the enactment of this?

MR. SHAFFER: Because you've never looked at this legislative record before. When you look at this legislative record, you find a predictive judgment by Congress that is a well-reasoned and logical and evidence-based predictive -- predictive judgment that this is a real phenomenon, it is emerging, it's being reported from multiple sources, it is quite \*30 concerning when you look at this from Fourteenth Amendment principles, among others.

And so they decided to do what they did. So that rationale is corroborated, Justice Alito. There's a reality to it, a grounding that is evident in what has happened subsequent to that.

And I think if the Court were to go, from our perspective, the wrong way in this case, the problem will get that much worse, because that will be taken as a green light for states to continue with their infringement without paying for it.

JUSTICE ALITO: So -- so can Congress say we're enacting this under Section 5 and we recognize that there's not much of a record of state violations at this point, but we predict that there is going to be?

MR. SHAFFER: If -- if the remedy is sufficiently well tailored around the constitutional deprivation, my answer to that is yes, Justice Alito. I think we are stronger than that. But to take U.S. -- to take Tennessee v. Lane and U.S. v. Georgia, there, the Court was looking at essentially what are \*31 the facts of specific cases or a specific set of cases and saying from the Court's perspective, yes, this would violate the Constitution, therefore, the remedy is constitutional as to those separate cases.

JUSTICE ALITO: But I didn't understand you to be making an argument under U.S. versus Georgia. Am I wrong? You're making an as-applied argument to this particular case?

MR. SHAFFER: I think it's on North Carolina to make an as-applied challenge, Justice Alito. Our respectful submission is that the CRCA is constitutional as enacted by Congress and as relied upon by us in this case.

And if North Carolina wants to argue that it is an unconstitutional application as to them, it's their burden to do so.

And we support the arguments of our amici that say the Court could ultimately decide this case under a U.S. v. Georgia or a Tennessee v. Lane rationale. I'm urging the Court, in the first instance, simply to uphold the CRCA, the way that Congress enacted the CRCA and envisioned for it to be applied.

JUSTICE GINSBURG: But you didn't make \*32 below the -- any -- at least I didn't see an argument based on U.S. v. Georgia.

MR. SHAFFER: We didn't, I think, cite U.S. v. Georgia. I think that is true, Justice Ginsburg. We do rely upon the arguments of our amici, and I stand by my submission to Your Honors, that if anyone is -- is trying to argue that the CRCA is unconstitutionally applied in this case, it's North Carolina.

And the Court can decide, as it decides so often when it comes to facial challenges, that the CRCA is not facially unconstitutional, but it could be open to states in an appropriate case to make the as-applied challenge.

JUSTICE SOTOMAYOR: You've done a very nice job of showing in your papers -- the Blackbeard law does trouble me deeply, but you're doing nothing with proving the proportionality to the problem because there are states that presumably have fine remedies to handle any infringement.

You've shown some failings in this state's processes, but I don't know how any of the evidence developed by Congress shows that \*33 all 50 states and territories additionally don't have adequate state systems to address this issue.

MR. SHAFFER: If I may answer the question, Mr. Chief Justice.

CHIEF JUSTICE ROBERTS: Briefly.

MR. SHAFFER: Very briefly, Justice Sotomayor. Number one, in -- in the legislative record, the House report at -- committee report at 9 and 10, the House emphasized how important copyright damages are, specifically statutory damages and attorneys' fees. It's the difference between loss of the right and -- and protection of the right. That's how important it is.

And, of course, the copyright statute preempts any equivalent state laws. So there is no recourse for the copyright holder who's complaining specifically of copyright deprivation outside of the CRCA.

CHIEF JUSTICE ROBERTS: Thank you, counsel.

Mr. Park.

#### **ORAL ARGUMENT OF RYAN PARK ON BEHALF OF THE RESPONDENTS**

\*34 MR. PARK: Thank you, Mr. Chief Justice, and may it please the Court:

State sovereign immunity is a fundamental feature of our Constitution's structure. As this Court has repeatedly reaffirmed, immunity from private lawsuits seeking money damages was inherent in the nature of sovereignty at the founding and remains today.

As the -- and the Constitution preserves this aspect of state sovereignty unless there's compelling evidence that the states surrendered it when they ratified a particular constitutional provision.

And my friend has failed to identify any historical evidence that anyone at the founding remotely contemplated that the intellectual property clause would allow for damages lawsuits against states. In fact, it was not until the 1970s, nearly two centuries after the first Copyright Act, that a federal court ever awarded damages of this kind.

Now Mr. Allen seeks to portray this \*35 settled state of affairs as somehow anomalous, but nothing could be further from the case. All of Congress's general law-making powers are subject to limits found elsewhere in the Constitution, including limits that protect state sovereignty.

And so Congress could not commandeer state legislatures and force them to pass copyright protective laws, nor could they, under separation of powers principles, vest judicial review of copyright claims in the Senate Judiciary Committee. And, likewise, state sovereign immunity limits Congress's authority to expose state treasuries to the Copyright Act's exorbitant financial remedies.

And for that reason too, the Act cannot be justified under Section 5 of the Fourteenth Amendment. Copyright infringement rarely rises to a constitutional violation at all, let alone pose the kind of serious constitutional threat that allows for expansive remedies like abrogation.

And liability under the Act is expansive. It's vastly greater than anything required by the Due Process Clause. It includes \*36 statutory damages of up to \$150,000 per infringement, even if the plaintiff cannot prove she suffered any actual harm.

And it creates a strict liability regime that covers negligent and even innocent infringement, even though, of course, only deliberate property deprivations can violate the Constitution. And these concerns are far from theoretical.

The First Circuit has affirmed a \$675,000 judgment against a college student for sharing online a few copyrighted songs, sending him into bankruptcy. And the due process concern that is ordinarily raised in a copyright damages lawsuit is whether they're constitutionally excessive, not --

JUSTICE BREYER: What is there that I can go to the same question, a wonderful money-raising thing. What the state decides to do with its own website, charging \$5 or something, is to run Rocky, Marvel, whatever, Spider-Man, and perhaps Groundhog Day, all right?

(Laughter.)

JUSTICE BREYER: Now, great idea. \*37 Several billion dollars flows into the treasury. Okay? Now, if you win, why won't that happen?

And, by the way, if you're writing to the constitutional convention, you're a member, okay, and you write these words, copyright is to promote the progress of science and useful arts by securing for a limited time to authors -- and to authors, the exclusive right to their respective writings.

But, of course, California decides that the person who wrote Rocky, Marvel, et cetera, will unfortunately receive nothing because everyone will have seen it on the state's own streaming device.

All right. What is your response to that?

MR. PARK: So there are two important separate issues at issue there. And I'll start with the text. So the exclusive right is -- well, sovereign immunity does not invade the exclusive right.

So I think that that hypothetical misunderstands, respectfully, the role of sovereign immunity in our constitutional system. As this Court said in Alden, states are not **\*38** relieved of their binding obligation to comply with federal law.

And the ordinary remedy required under the Constitution when a sovereign violates federal rights is an injunction and not money damages.

JUSTICE BREYER: Oh, it's -- by the way, we ran it yesterday. You can have your injunction. Do you see my point?

MR. PARK: Yes, exactly. Well, so I agree that under sovereign immunity, as a necessary consequence, there will be hard cases where, you know, statutory violations are not remedied, but that, I think, the important understanding that the founders had is that when you sue a sovereign, on the opposite side of the judgment are the people and the people's money.

And so the entire point of sovereign immunity, as this Court said in Lewis just a few terms ago, is to protect state governments and allow them to make their own choices as to how to spend scarce --

JUSTICE KAVANAUGH: There are not going to be --

MR. PARK: -- government resources.

**\*39** JUSTICE KAVANAUGH: -- there are not going to be hard cases. There are going to be easy cases.

MR. PARK: Well --

JUSTICE KAVANAUGH: And it's not -- and Justice Breyer's point is that it could be rampant, states ripping off copyright holders. And how is that -- how can that be squared with the exclusive right, if states can do this, which presumably a ruling in your favor will do nothing but encourage them to do?

MR. PARK: So I think that's the beauty of the Copyright Remedy Act, combined with this Court's Georgia decision. So, on extreme hypotheticals, such as Justice Breyer outlined --

JUSTICE KAVANAUGH: Why is it extreme? You've said hard cases and now extreme. Why won't it just be a standard case and not so extreme?

MR. PARK: Well, so whenever a plaintiff can reasonably allege that there has been intentional copyright infringement and there are not adequate remedies, then, under this Court's Georgia decision, they can bring a **\*40** direct constitutional claim. We don't dispute that.

And so I think, to the extent that the Georgia issue is relevant here at all, it's to the fact that it relieves many of these concerns that, Justice Breyer and Justice Kavanaugh, you've outlined. I think that -- well, so if we were to discuss the Georgia issue here, I think we have been here litigating this case against Mr. Allen for four years. And the first time that he ever raised this Georgia issue of a direct constitutional challenge was in his reply brief in this Court.

You won't see it in the petition. You won't see it in his briefs below or in the transcripts of the argument. And, of course, for that reason, the lower courts never addressed it. They never --

JUSTICE BREYER: Your view is that -- that, in fact, under the Fourteenth Amendment, this statute is valid insofar as my Captain Marvel example deliberately takes property from people. So is that what your point is?

MR. PARK: Yes, if the --

JUSTICE BREYER: All right. If that's \*41 your point, then you concede their point, whether they raised it or not, somebody else would, you concede that this legislation is valid. You're just saying it only applies to instances where the state deliberately takes Captain Marvel.

That would cure my problem to a considerable degree, but that is the concession on your part?

MR. PARK: I think it follows naturally from this Court's Georgia decision, but I would add one additional element, which is to complete a due process violation for a deprivation of property, two additional features are required; you need to be deliberate and there needs to be no alternative remedy.

And, here, there are other alternative remedies that could be available.

JUSTICE GINSBURG: Let's take deliberate first. So it is alleged that North Carolina is infringing on copyright, copyrighted works. There's a settlement. And then North Carolina starts up doing exactly the same thing that it did before the first. That sounds pretty intentional to me.

\*42 MR. PARK: I think it would be intentional if the State had not explicitly bargained for a provision that says we can use Mr. Allen's images for non-commercial purposes.

And now I think that that highlights how this dispute is really a dispute over the scope of a contractual license that the State received. There is a pending breach of contract lawsuit in state court where the State and Mr. Allen's business partner, Intersal, are debating these exact facts, whether we've exceeded the scope of our license by, for example, not putting watermarks on the images and that sort of thing. So I think that relieves --

JUSTICE SOTOMAYOR: Do -- I'm sorry, finish.

MR. PARK: I just was going to point out as well that I think that relieves any actual due process violation that could be here because, of course, there's -- the alternative remedy is a breach of contract lawsuit, which we have not asserted sovereign immunity for.

We've affirmatively waived our immunity in state court for breach of contract claims.

\*43 JUSTICE SOTOMAYOR: What do I do with the Blackbeard law? It is deeply troubling. It's a state saying even if I'm infringing, you can't get anything. That's basically how I read that law.

What remedies do they have under federal law for a state doing something like that?

MR. PARK: So I agree it's a strange law. I think there are two separate points I'd like to make.

So, first, it can't possibly have any relevance to this lawsuit because it was passed in 2015, two years after the alleged infringements in question.

JUSTICE SOTOMAYOR: It could to a Georgia argument, obviously.

MR. PARK: Well, so I think -- and I think that exposes the second issue, which is that there are -- there are two types of claims in this complaint. There are -- there's a copyright infringement claim and related claims, and there's a declaratory judgment claim asking that that law be declared preempted.

Now Mr. Allen has not sought cert on \*44 the declaratory judgment claim, and that would be the remedy in that circumstance. But the district court -- sorry, the Fourth Circuit, and this is on pages 37 to 39 of the Petition Appendix, the Fourth Circuit rejected the declaratory judgment claim because it held that the 2013 settlement agreement said that your -- your images, Mr. Allen, are subject to the public records law, and the 2013 version of the law said that photographs that the state receives in public business are public records.

And so that amendment couldn't possibly have affected Mr. Allen's rights to his images.

JUSTICE ALITO: So why wasn't it a taking? Why wasn't the passage of that law a taking when -- when the law declares that something that is private property is now a public record?

MR. PARK: So I think it possibly could be on different facts, if Mr. Allen hadn't already agreed in the contract that his images were public records, but I think that this would be a pretty extraordinary vehicle for this Court to decide when copyright infringement can **\*45** constitute a taking.

I'm not aware of any federal court that has ever reached that question because it hasn't been litigated, so he never alleged that the use of the images was a taking below. And he mentions it in his brief here, but he doesn't even describe the substantive standards that would apply under either a direct physical invasion analysis or a Penn Central deprivation of economic value analysis.

And so I think that the images here could not possibly be a taking because the question here is whether our display of a handful of images in a few educational videos and a museum nonprofit newsletter constituted a complete deprivation of economic value. Surely, it wasn't physical occupation of those images.

And so I don't think the takings clause is relevant here.

JUSTICE KAGAN: Well, what about Section 5, Mr. Park? Congress clearly wanted to abrogate the state sovereign immunity, so what would it have had to do in your view in order to do that successfully?

MR. PARK: I think that it should have **\*46** followed the rules laid out by this Court in City of Boerne and subsequent cases. And I think that to be in all fairness to Congress, those decisions postdated the statute here.

And so they weren't even trying to meet those standards. And it is an unfortunate consequence, but this Court --

JUSTICE KAGAN: What would a record that does meet those standards, what would it look like?

MR. PARK: So it would be trained on identifying copyright infringement that also violated the Constitution. So it would be intentional infringement, and it would be infringement where there's no alternative remedy.

JUSTICE KAGAN: Well, can't Congress say something like in copyright, you know, any violation requires actual copying? So we're going to assume that 80 percent of the violations in the world are intentional?

MR. PARK: So I think that that would activate the danger that this Court designed the City of Boerne test to prevent, which is changing the substance of law under Section 5.

**\*47** Now, under copyright law, that willful infringement is a recognized --

JUSTICE KAGAN: Whoa --

MR. PARK: -- standard.

JUSTICE KAGAN: -- whoa, whoa. Because there's clearly some allowance for Congress to devise prophylactic rules, and this would seem to be a perfect example of like, you know what, given the requirements of a copyright violation, we think the vast majority of them are going to be intentional and, therefore, are going to be constitutional violations.

Are you saying Congress can't say that and just target copyright violations generally?

MR. PARK: I think that they could. I think, on a different record, if they had focused on intentional infringement and said, you know, this is widespread, there are no adequate alternative remedies, this is a serious national constitutional problem, and -- and we will enact prophylactic remedies to address this.

JUSTICE KAGAN: Well, how do they show that?

MR. PARK: Well, I think, at the very **\*48** least, they focused on intentional infringement. I would direct the Court to Mr. --

JUSTICE KAGAN: I think I just talked about that.

MR. PARK: Right.

JUSTICE KAGAN: They've decided that 80 percent of copyright violations are intentional because copyright violations always involve actual copying. It's hard to actually copy something negligently.

MR. PARK: Yeah --

JUSTICE KAGAN: Not impossible, but hard. So -- so Congress has decided, you know, the vast majority of these are intentional, therefore, are constitutional violations. Now what does Congress have to do?

MR. PARK: So I think there would be the additional analysis, which is the proportionality prong of the test, which requires that there be some tailoring of the remedies that are given by Congress to what is required by the due process clause.

And no one has ever claimed -- I'm not aware of any copyright holder that has ever claimed that the exorbitant remedies found in **\*49** the Copyright Act are required by due process. I mean, we're talking about \$150,000 per infringement. Even for an infringement where the plaintiff says I cannot prove any actual damages, but because this infringement was so egregious on its merits, I deserve statutory damages.

JUSTICE BREYER: Here, as I -- I see the problem, which you've clarified very much for me, it's that the choice for us now is, say, your view would be that -- that the states can copy without doing anything unless that copying violates the due process clause. And in that respect, you agree that the statute can be upheld.

Now, if we accept your view, we've got to decide how copyright, copying, and the due process clause fit together, which, to my knowledge, this Court hasn't really gone into. And it sounds like a pretty good mare's nest.

Now, the other view would be -- you lose, which you don't want to do --

(Laughter.)

JUSTICE BREYER: -- but the other view would be it's likely that there are enough cases **\*50** where it would violate the due process clause for us to accept the statute as a whole, thereby creating in a sense another somewhat different exception to the statement in Florida Prepaid.

I'm trying to get our issue, and I'm trying to say it fairly from your point of view and from the other point of view.

MR. PARK: So -- so let me clarify in terms of your first construct. I don't think that's actually accurate, so under copyright law, a whole range of copying doesn't violate the Copyright Act at all, when there's fair use that applies, when, as here, it's contractually authorized. And so an additional element is required for that to be considered intentional. And copyright law -- law has a built-in set of standards here.

What Nimmer says and what the Second Circuit says, what is fairly well accepted in the lower courts is that willful infringement is when the -- the defendant has actual knowledge that their act constitutes copyright infringement.

Now, there is some dispute as to whether recklessness -- as to whether it **\*51** constitutes copyright infringement is enough, but I -- I'm not aware of any court that has ever said that the intentionality requirement, as is sometimes relevant in copyright law, is ever met by mere copying.

In fact, you know, 504(c) (2) of the Copyright Act says "innocent infringement is still liable." And "innocent" is defined as when the defendant had no reason to be aware that the infringement was --

JUSTICE KAGAN: Do you think Congress is able to make judgments about what proportion of copyright violations are indeed intentional? If -- if Congress had said, given the requirement of actual copying, we think a vast majority of copyright infringements are intentional, would that be precluded, would that -- would that fall within Congress's power or not?

MR. PARK: Yes, I think that Congress warrants a great deal of deference in this area. And so if they had conducted that examination and they had made that conclusion in a finding or it was clear in the legislative record that that was what Congress was focusing on --

\*52 JUSTICE KAGAN: So do you think that's what Congress has to do here? Congress has to say we think most copyright violations are indeed intentional and therefore violate due process? And here there are 30 examples, would that be enough?

MR. PARK: I don't -- I don't believe that there is a strict numerical threshold that is required to legislate under Section 5. I think that -- what City of Boerne says is that the remedy has to be tailored to the scope of the constitutional violation. Right?

So if there were 30 violations, then Congress could say, well, here's a proportional remedy to that level of --

JUSTICE KAGAN: Well, why isn't the proportional remedy the same remedy that everybody else has to pay?

MR. PARK: Because --

JUSTICE KAGAN: I mean, once Congress has decided that we think that there are loads of constitutional violations going on, why doesn't the state have to pay what every other actor would have to pay when it engages in those constitutional violations? Why isn't that \*53 almost sort of, by definition, proportional? That's what people pay.

MR. PARK: It would be proportional to the -- the Copyright Act, but Section 5 has to be focused on enforcing the due process clause, and the due process clause only requires at most compensatory relief.

And so I think that that exposes how my friend on the other side is trying to constitutionalize copyright law. What we're talking about is the due process clause and what that requires, and not ordinary infringement.

JUSTICE BREYER: But it's both you and your friend, because what you will have the courts doing is, case by case, when -- when, say, California tries to run -- they won't run Captain Marvel, maybe it's some old movie, you know, and they say it's fair use. And we can think of millions -- I'm -- not a million, but thousands of examples.

And case by case when someone tries to stop them, the courts have to decide whether the due process clause in this instance, where the University of California thought it was fair use to make 50,000 copies of Norman Mailer's book or \*54 something, you know, you say case by case, we have to decide the constitutional question.

I think that's what -- where -- where you're leaving me. And it's s -- it's -- it's tough. It's tough sort of both ways.

MR. PARK: Well, so I don't think that's going to be difficult for the lower courts to -- to wade through that state of the law because they're merely applying the ordinary rules of copyright.

So willful infringement, we think, would constitute intentional infringement. And they merely assess whether alternative remedies are available. And that is something that courts are very well equipped to do, to decide whether an alternative claim would be meritorious.

Now, one other alternative remedy that no one disputes here is that they could try to sue the individual officers personally. Of course, we wouldn't like that at all, but I think the settled state of the law, at least in the lower courts, is that copyright infringement claims can be sued -- can be brought against individual state --

\*55 JUSTICE GINSBURG: But they won't --

MR. PARK: -- employees.

JUSTICE GINSBURG: -- have the same deep pocket that the state has.

Let me ask one aspect of this question, Mr. Park. States can hold copyrights. They can be copyright holders. And they can sue anybody in the world for infringement. There's something unseemly about a state saying, yes, we can hold copyrights and we can hold infringers to account to us, but we can infringe to our heart's content and be immune from any compensatory damages.

Could Congress say -- condition the copyright privileges that states have by saying, States, we're going to allow you to copyright works, but the price is you have to be fair to the other side so that when you are infringing, you'll be liable? Could -- does Congress have Article I authority to do that?

MR. PARK: So I don't think that they could do that because I think that would be an unconstitutional condition. It would be a hard case that this Court would probably decide.

But what they could do to bring the \*56 parties into parity would be to say that, States, you can't hold copyrights at all. The states have never claimed a constitutional entitlement to be able to hold copyrights. The United States Government can't hold copyrights.

What it has done is as a matter of statute, and this is an interpretation of the 1909 Copyright Act, where because Congress said, United States, you can't hold copyright -- copyrights, courts have said, well, that implies that states can hold copyrights.

But I think that they would be within their rights to -- to remove that right and remove that anomaly.

CHIEF JUSTICE ROBERTS: Counsel, just to get back to your statement that all you have to do is sue the state officers, you -- you'd certainly reimburse the officer, wouldn't you?

MR. PARK: Yes, that's -- that's correct.

CHIEF JUSTICE ROBERTS: So is that all they have to do, just name the officer, rather than the state, in their infringement action?

MR. PARK: Well, I think that -- so, yes, that most states would reimburse their \*57 state officers if -- if it was within the scope of their employment, and that there would be additional hurdles in that kind of case. Qualified immunity would apply.

And qualified immunity applied in this case, and that's why the -- the claims were dismissed against the individual officers.

CHIEF JUSTICE ROBERTS: Well, then it's not much of a -- it's not much of a response to say, well, you can sue the officer.

MR. PARK: Again --

CHIEF JUSTICE ROBERTS: It gets thrown out right away but you can still sue him. So that's a reason not to hold the state liable?

MR. PARK: Well, I think it is in this context and -- and here's why, because intentionality under the due process clause is roughly equivalent to the qualified immunity analysis.

That's what this Court said in Kingsley versus Hendrickson, that it's -- intentionality is judged by an objective standard under all the facts and circumstances available to the officer. Is what they did, can that be construed as intentional. That's very \*58 similar as to the qualified immunity analysis and I think it mirrors what the Fourth Circuit did here where it says, well, there's this contract. It's a little bit ambiguous. It's not clear whether this is -- these are non-commercial uses.

But we won't say that what they did was intentional, when a reasonable officer would read that contract and say, well, I think that educational videos and a museum newsletter are commercial -- non-commercial uses and so they are covered by the contract.

JUSTICE ALITO: Mr. Park, can I take you back to the -- the interesting suggestion that perhaps Congress could have justified what it did in this act by saying that we predict that a high percentage of copyright infringements are intentional and, therefore, violate due process.

If we were to accept that, is there any reason why the same reasoning would not apply in patent litigation?

MR. PARK: No, I don't believe there is any -- any distinction there. And I -- I think that that highlights how -- I don't think \*59 that that is actually what Congress could do if it didn't match the -- this Court's jurisprudence or at least the jurisprudence of the lower federal courts.

If the lower federal courts have not said that most copyright infringement is intentional, it's the rare exception that infringement is held to be willful.

And -- and so I think that it would be based on the legislative record. You would evaluate whether Congress had a good faith basis for making that conclusion. And I -- I think on the current state of the law, as I understand it, they would not have that good faith basis.

So I'd like to just turn very quickly to this idea that future infringement could be enough or that these, you know, examples that have arisen after the copy -- the Copyright Remedy Act could be relevant to this analysis.

I think that that would be at odds with all of this Court's Section 5 cases, including the cases where this Court has upheld abrogations as valid, such as Hibbs. In all of those cases they said Congress must identify a widespread pattern of constitutional violations, \*60 and in the legislative record before it.

And I think that that goes to the heart of the entire -- of the City of Boerne test, which is evaluating Congress's work and making sure they are not trying to change constitutional law through Section 5. They -- they have -- they have to be enforcing the law as interpreted by this Court.

I think -- if I can make just a few words on stare decisis, because I think that's incredibly important in this case. I think that my friend has acknowledged that a ruling in his favor, at least on Article I, would effectively overrule Florida Prepaid.

That there would be some interesting law review articles written about whether it did so on its own merits or whether there has to be subsequent litigation, or whether it automatically revived the -- the Act.

But no one that has ever evaluated the intellectual property clause has been -- ever been able to identify any distinction between copyrights and patents that could be relevant to this analysis.

And so, yes, if this Court rules on \*61 the basis of Article I, we think that -- that Florida Prepaid would be overruled.

And I don't think that Katz can -- can bear the weight that Mr. Shaffer tries to place on it. So Katz, and this is at page 363 of Katz, it says, "our assumptions about the bankruptcy clause were erroneous."

And I think that that was a reasonable thing for Congress -- for this Court to say, given that there had been nearly a century of precedent, going all the way back to 1933 in New York versus Irving Trust, saying that bankruptcy discharge proceedings --

JUSTICE KAVANAUGH: You said the blanket statement in Seminole Tribe was incorrect and Florida Prepaid relied on that same blanket statement in Seminole Tribe. It seems to be a problem for that blanket statement in Florida Prepaid.

MR. PARK: Yes, I -- I completely agree. I think that the reasoning of Florida Prepaid's Article I holding has been undercut and that would be a reason to revisit --

JUSTICE KAVANAUGH: It's two sentences.

\*62 MR. PARK: That's correct, Your Honor. It's very limited. And it's based on a principle that has been undermined by Katz. I think -- so you would apply the ordinary rules of stare decisis. That's the only point here. Not that it has not been undermined in any respect.

And I think if you view this question in terms of the principles that stare decisis is supposed to uphold, you know, legal stability, reliance on this Court's decisions, that that would really bring this issue into focus, because everyone who has evaluated Florida Prepaid and whose job it is to evaluate this Court's rulings and say what are my legal rights and obligations, has said that it covers both the Copyright Remedy Act and the Patent Remedy Act, including the United States Government, which has --

JUSTICE GINSBURG: I just -- I really don't follow your reliance argument. Yes, the state may be relying, but who other than the state relies on the state's right to infringe without damage liability, who other than the state?

\*63 MR. PARK: I -- I think that I am speaking about the state's reliance interests, for the states generally. And I think here is why that matters, and I would bring it back to this case.

So the -- our Cultural Resources Department is operating on a shoestring budget trying to recover and excavate and preserve the remaining aspects of the Queen Anne's revenge, around 40 percent of which under their estimates is still on the bottom of the ocean.

And they are doing that work. And it's when there are competing legislative priorities, such as school funding and disaster relief, and all sorts of other more important priorities, it's hard to get money to fund important work like this for the state's history.

JUSTICE KAGAN: I think, though, Mr. Park, what Justice Ginsburg was suggesting, that it's not the strongest reliance argument to say we relied on this -- this Court's holding to infringe other people's rights.

MR. PARK: Not -- not to infringe on other people's rights. I think that what they \*64 did here is that they posted online on good faith -- faith reliance on a contract. It could have also been on fair -- on good-faith reliance and perhaps an aggressive reading of fair use

and other situations, but they did that because they thought that they wouldn't have infringement liability of up to \$150,000 per work.

And there are -- you know, I can give legions of examples where juries have awarded astronomical copyright damages. There was a jury in Minnesota that awarded \$1.9 million against a single mother of four for downloading and sharing a few copyrighted images online, and the Eighth Circuit reduced that judgment to \$220,000. She still went bankrupt.

But because these issues are ordinarily thought to be a due process problem on the other side, and so I think that you would see states retract from their uses of copyrighted works in a way that benefit the public.

There is an amicus brief from the library association saying that this would imperil copyright infringement liability, \***65** monetary liability, would imperil digitization projects and other works of archives.

And I think the states are simply different. I -- I don't think it's respectful to the interests of state governments to say --

CHIEF JUSTICE ROBERTS: You can finish the sentence.

MR. PARK: -- that they will -- that they will infringe at will if damages liability is taken off the table.

Thank you.

CHIEF JUSTICE ROBERTS: Thank you, Mr. Park.

Four minutes, Mr. Shaffer.

#### **REBUTTAL ARGUMENT OF DEREK L. SHAFFER ON BEHALF OF PETITIONERS**

MR. SHAFFER: Mr. Chief Justice, and may it please the Court:

Starting with Blackbeard's law, Justice Sotomayor, I want to be clear, Blackbeard's law was passed after the allegations of infringement in -- in this case, after North Carolina had been caught infringing.

It was then used as -- as alleged in the complaint by North Carolina to defend \***66** against the state courts by Intersal because they said Blackbeard's law had voided the settlement agreement.

It was now contrary to North Carolina's public policy and they couldn't be held to the settlement agreement, nor could they be held liable. That's in the complaint. That is as alleged and I don't think there's any ability by the state in this posture to contradict those allegations.

As to the Intersal dispute that Mr. Park talks about, in North Carolina State Court, Intersal does not hold the copyrights, so they are sued by definition. It's not trying to vindicate the copyrights.

That suit was just decided by the North Carolina Supreme Court after North Carolina for years interposed sovereign immunity defenses saying that the breach of contract action had not been properly filed administratively, there needed to be administrative exhaustion, so that suit is continuing on. It's not as though sovereign immunity was no impediment and it's certainly not out to vindicate copyrights.

\***67** As to the images in question, I just have to emphasize, Your Honor, my clients have put in two decades of work, essentially, trying to be there to -- when these images are excavated underwater, at great expense, at great risk, and this is all essentially my clients get out of it, the copyrighted images.

And the allegations of the complaint are that North Carolina, not once or twice but repeatedly and systematically, was infringing those copyrights, was caught doing it, paid \$15,000 under the terms of the settlement agreement, went back to doing it. Even after this complaint was filed, they continued to infringe the copyrights. And the resolution by the Fourth Circuit is everything is dismissed.

And as to injunctive relief, Justice Breyer, Congress found it provides no meaningful remedy in this context, different from the patent context, but it's all about getting paid for past damages in order for this to be a meaningful remedy.

And in this case, the request for injunctive relief was thrown out. Why? Because North Carolina did exactly what you articulated, \*68 Justice Breyer. They said: Well, we've stopped infringing those images now that you've pointed it out in court. We've taken those down. What else have you got? And without benefit of discovery, the Fourth Circuit viewed that as the end of the request for injunctive relief. And that's how it goes in copyright cases.

Now, as to the notion that there could be individual suits against individual officers under 1983, you're exactly right, Chief Justice, qualified immunity is a defense in this context.

I'd commend to the Court the Fourth Circuit's decision on this point. It's at 37a, 39a. They basically said, because there's some defense that's available to these officials, they say they read the settlement agreement differently, maybe they didn't know it was copyright infringement, maybe they weren't looking for the watermarks or the -- the time stamps, that is a good enough defense. Qualified immunity gets them out of the case, and those claims, too, were dismissed.

That's why it's so important, part of why it's so important, in copyright cases that there be secure remedies for copyright holders. \*69 That's true against states and it's true against anyone. Most copyright holders, unlike patent holders, Justice Alito, these are small fish, they have not sunk costs into this sort of a registration.

And they need to have secure statutory damages and attorneys' fees in order to come to court at all because in copyright cases, as Congress found from the testimony before it and the -- and the submissions of the register, you need to have statutory damages. Otherwise, how can you quantify what the harm was?

And especially given how small the stakes are in copyright cases and how under-heeled most copyright plaintiffs are, if you don't have those statutory damages, you don't have a right. And that is specifically found by Congress in the House report at pages 9 and 10.

So, Justice Kavanaugh, you asked about what happens in ordinary cases. This is exactly what Congress looked at. They said the rule in copyright cases, absent the CRCA, is that copyright infringement pays for states. They will get away with it every time. You will not \*70 have copyright holders who have incentives and means and attorneys to bring suit. That should not be the outcome in this case.

And to say it, respectfully, that it's incumbent upon every copyright plaintiff who sues a state to prove a constitutional violation and willfulness in the way that Mr. Park articulates is to render the right nugatory and the CRCA as well.

Thank you, Mr. Chief Justice.

CHIEF JUSTICE ROBERTS: Thank you, counsel. The case is submitted.

(Whereupon, at 12:04 p.m., the case was submitted.)

**Appendix not available.**

# AMERICAN AUTOMOBILE ASSOCIATION

2019 WL 5870151 (UDRP-ARB Dec.)

THE AMERICAN AUTOMOBILE ASSOCIATION, INC. v. CHINA CAPITAL DOMAIN FUND LIMITED

WIPO Arbitration and Mediation Center

ADMINISTRATIVE PANEL DECISION

THE AMERICAN AUTOMOBILE ASSOCIATION, INC. v. CHINA CAPITAL DOMAIN FUND LIMITED

Case No. D2019-2209

\*1 Doman Name: aaaautorental-ucanrentautorental.com

**Industry:** Miscellaneous Publishing

Arrangement of Passenger Transportation, NEC

Fire, Marine, and Casualty Insurance

Automotive Services, Except Repair and Carwashes

**Case Type:** Domain Name

**Award Amount:** Equitable

**\*9 Award Date:** October 31, 2019

**Arbitrator:** John Swinson

## 1. The Parties

The Complainant is The American Automobile Association, Inc., United States of America ('United States'), represented by Covington & Burling LLP, United States.

The Respondent is China Capital Domain Fund Limited, China, represented by Morton & Associates LLP, United States.

## 2. The Domain Name and Registrar

The disputed domain name <aaaautorental-ucanrentautorental.com> (the 'Disputed Domain Name') is registered with NameSilo, LLC (the 'Registrar').

## 3. Procedural History

The Complaint was filed with the WIPO Arbitration and Mediation Center (the 'Center') on September 11, 2019. On September 11, 2019, the Center transmitted by email to the Registrar a request for registrar verification in connection with the Disputed Domain Name. On September 11, 2019, the Registrar transmitted by email to the Center its verification response confirming that the Respondent is listed as the registrant and providing the contact details

The Center verified that the Complaint satisfied the formal requirements of the Uniform Domain Name Dispute Resolution Policy (the 'Policy' or 'UDRP'), the Rules for Uniform Domain Name Dispute Resolution Policy (the 'Rules'), and the WIPO Supplemental Rules for Uniform Domain Name Dispute Resolution Policy (the 'Supplemental Rules').

In accordance with the Rules, paragraphs 2 and 4, the Center formally notified the Respondent of the Complaint, and the proceedings commenced on September 19, 2019. In accordance with the Rules, paragraph 5, the due date for Response was October 9, 2019. The Response was filed with the Center on October 9, 2019.

The Center appointed John Swinson as the sole panelist in this matter on October 17, 2019. The Panel finds that it was properly constituted. The Panel has submitted the Statement of Acceptance and Declaration of Impartiality and Independence, as required by the Center to ensure compliance with the Rules, paragraph 7.

#### **4. Factual Background**

The Complainant is The American Automobile Association, Inc., a company incorporated in the United States. The Complainant provides automobile-related products and services in the United States and Canada. The Complainant has been established for over 100 years.

The Complainant is the owner of a number of registered trade marks for AAA, including United States registered trade mark number 0829265, registered on May 23, 1967 (the 'Trade Mark').

The Respondent is China Capital Domain Fund Limited, a company incorporated in Hong Kong, China. The Respondent is a domain investor. According to the Registrar, the Respondent acquired the Disputed Domain Name on November 30, 2018. According to the Respondent, the Respondent purchased a portfolio of expired domains, which included the Disputed Domain Name, on or around February 15, 2018. At present, the Disputed Domain Name resolves to a parking page containing pay-per-click ('PPC') links.

#### **5. Parties' Contentions**

##### **\*2 A. Complainant**

The Complainant makes the following submissions.

###### Identical or Confusingly Similar

The Complainant bases this Complaint on its exclusive ownership of United States federal trade mark registrations. It is well settled that the Trade Mark is valuable and famous in the United States and abroad (*The American Automobile Association, Inc. v. Spins Unlimited, David Snyder*, WIPO Case No. D2013-1827; *Am. Auto. Ass'n, Inc. v. AAA Ins. Agency, Inc.* 618 F. Supp. 787, 790 (W.D. Tex. 1985); *Am. Auto. Ass'n, Inc. v. AAA Auto. Club of Queens, Inc.*, No. 97 CV 1180, 1999 WL 97918, at \*5 (E.D.N.Y. Feb. 8, 1999)).

The Disputed Domain Name is substantially and confusingly similar to the Trade Mark because it contains the entire Trade Mark with the addition of generic terms 'auto rental' and 'u can rent'. Adding the generic term 'auto rental' and including website links related to automobile rental services heightens the likelihood of consumer confusion. The Respondent's use of the Disputed Domain Name is likely to cause, and may have already caused, consumer confusion as to the source, sponsorship, affiliation or endorsement of the Disputed Domain Name.

###### Rights or Legitimate Interests

The Complainant has not licensed or authorised the Respondent to use the Trade Mark. This is sufficient to establish a *prima facie* case that the Respondent has no rights or legitimate interests in the Disputed Domain Name.

There is no evidence that the Respondent is commonly known by the Disputed Domain Name, nor is the Respondent using the Disputed Domain Name to advertise a business with a name containing the Trade Mark.

The Respondent's use of the Disputed Domain Name to host a parking page with PPC links to competing services is not a *bona fide* offering of goods or services or a legitimate noncommercial or fair use. The Respondent assuredly was aware of the Complainant and the Trade Mark when the Respondent registered the Disputed Domain Name, and intends to divert Internet users seeking the Complainant's products and services to the Respondent's website.

###### Registered and Used in Bad Faith

The following factors demonstrate that the Respondent registered and used the Disputed Domain Name in bad faith:

- The Respondent registered a domain name confusingly similar to the Trade Mark to divert Internet users to the Respondent's website.
- The Respondent used the Disputed Domain Name to host a parking page with PPC links to competing services (which is *prima facie* evidence of bad faith), and is disruptive of the Complainant's business.
- The Respondent had actual or constructive knowledge of the Trade Mark and the Complainant's substantial fame in the United States and abroad. The Respondent registered the Disputed Domain Name over 100 years after the Complainant began using the Trade Mark.
- The Respondent offered to sell the Disputed Domain Name for more than its out-of-pocket costs. The Respondent also has a history of cybersquatting.

### **\*3 B. Respondent**

The Respondent makes the following submissions.

#### Identical or Confusingly Similar

The Disputed Domain Name is not identical or confusingly similar to the Trade Mark--the terms 'aaaautorental' and 'ucanrentautorental' result in the Disputed Domain Name being markedly different in sight, sound and commercial impression. The Trade Mark only comprises of a minuscule portion of the Disputed Domain Name, so there is no risk of confusion.

The content of the Respondent's website is irrelevant.

#### Rights or Legitimate Interests

The Respondent acquired the Disputed Domain Name on or around February 15, 2018, as part of a portfolio of expired domains, consistent with the Respondent's business model. The Disputed Domain Name was formally registered by a small automobile rental company in Alabama, United States called 'AAA Auto Rental--U Can Rent Auto Rental'.

The Respondent's use in posting parking and landing pages with PPC links is acceptable and permissible, provided the Disputed Domain Name was not registered with a particular trade mark in mind. The Respondent purchased the Disputed Domain Name because it contained the generic terms 'auto rental' twice, which boosts search traffic and would enable the Respondent to populate the Disputed Domain Name with PPC links related to automobile rentals. The Disputed Domain Name was also appealing because it was an expired domain of a defunct and rebranded business, which minimized the probability the Respondent could be infringing on third party rights.

The parking page does not refer to the Complainant. The Respondent did not have actual or constructive knowledge of the Complainant or the Trade Mark.

The Respondent has legitimate rights and interests in the Disputed Domain Name which it acquired as part of its business operations without any intent to capitalise on the Complainant's reputation and goodwill. The Complainant has not provided any evidence to the contrary.

#### Registered and Used in Bad Faith

The Complainant relies on previous UDRP decisions involving the Complainant to establish the fact that the Trade Mark is well-known, and this is not an issue that should be decided by a UDRP Panel. Additionally, those Panels made this finding in the context of the United States and Canada only, not Asia where the Complainant is not well known.

The Respondent is not incorporated in the United States and does not have a principal place of business there. The Complainant has not provided proof of trade mark registrations or business activities in Asia or Hong Kong, China, where the Respondent is based.

AAA is a common acronym. The Respondent did not have actual knowledge of the Complainant or the Trade Mark at the time it acquired the Disputed Domain Name. In Hong Kong, China, the acronym 'AAA' is most associated with the Asia Art Archive. The Respondent is in an entirely different industry on the other side of the world to the Complainant, so it would be inequitable to impose actual knowledge. Knowledge is not sufficient to establish bad faith.

\*4 The Complainant was the first to approach the Respondent, and the Respondent only offered to sell the Disputed Domain Name for the purposes of a harmonious resolution to the matter.

## 6. Discussion and Findings

To succeed, the Complainant must demonstrate that all of the elements enumerated in paragraph 4(a) of the Policy have been satisfied, namely:

- (i) the Disputed Domain Name is identical or confusingly similar to a trade mark or service mark in which the Complainant has rights; and
- (ii) the Respondent has no rights or legitimate interests in respect of the Disputed Domain Name; and
- (iii) the Disputed Domain Name has been registered and is being used in bad faith.

The onus of proving these elements is on the Complainant.

### A. Identical or Confusingly Similar

Paragraph 4(a)(i) of the Policy provides that the Complainant must establish that the Disputed Domain Name is identical or confusingly similar to the Trade Mark.

The Disputed Domain Name incorporates the entirety of the Trade Mark, with the addition of a hyphen and the words 'autorental' (twice) and 'ucanrent'. The first element of the Policy functions primarily as a standing requirement. Where a domain name incorporates the entirety of a trade mark, or where at least a dominant feature of the relevant mark is recognizable in the domain name, the domain name will normally be considered confusingly similar to that mark (see section 1.7 of WIPO Overview of WIPO Panel Views on Selected UDRP Questions, Third Edition ('WIPO Overview 3.0')).

The addition of other terms (whether descriptive, geographical, pejorative, meaningless, or otherwise) do not prevent a finding of confusing similarity under the first element (see section 1.8 of WIPO Overview 3.0). In this case the added terms do not dispel such a similarity or change the overall impression of the Disputed Domain Name as being connected to the Trade Mark (see *The American Automobile Association, Inc. v. Cameron Jackson/PrivacyDotLink Customer 2440314*, WIPO Case No. D2016-1671).

The Panel acknowledges that the acronym 'AAA' does not always refer to the Complainant. However, the words used in the Disputed Domain Name are directly related to services provided by the Complainant.

The Panel considers that this case is distinguishable from *The American Automobile Association, Inc. v. Domains by Proxy, LLC a/k/a Tamir Zaid, aaa locksmith services*, WIPO Case No. D2014-0122, where it was found that the domain names in question were not similar to the Complainant's marks. In those decisions, it was highly relevant to the panels' findings that the Complainant was not well-known for locksmith services. In contrast, the Complainant is well-known for travel-related services (including car rental services), and these services are among the class of services provided under its trade marks (see *The American Automobile Association, Inc. v. Wesley Cao, aaainsurancefreequote*, WIPO Case No. D2014-0169).

\*5 The Disputed Domain Name is confusingly similar to the Trade Mark. The Complainant succeeds on the first element of the Policy.

## B. Rights or Legitimate Interests

Paragraph 4(a)(ii) of the Policy provides that the Complainant must establish that the Respondent has no rights or legitimate interests in respect of the Disputed Domain Name. The Complainant is required to make out a *prima facie* case showing that the Respondent lacks rights or legitimate interests.

The Panel considers the Complainant has made out a *prima facie* case. This finding is based on the following:

- The Respondent is not using (and there is no evidence that the Respondent has demonstrable preparations to use) the Disputed Domain Name in connection with a *bona fide* offering of goods or services. The website at the Disputed Domain Name features a PPC link page. These links relate to automobile services, including links to the Complainant's competitors. In the circumstances, this is not a *bona fide* use of the Disputed Domain Name under the Policy.
- The Complainant has not authorised the Respondent to use the Trade Mark in the Disputed Domain Name.
- There is no evidence that the Respondent has been commonly known by the Disputed Domain Name, or has registered or common law trade mark rights in relation to this name.
- The Respondent has not been making a legitimate noncommercial or fair use of the Disputed Domain Name without intent for commercial gain. It is likely that the Respondent is receiving click-through revenue from the PPC links on the website at the Disputed Domain Name.

As the Complainant has established a *prima facie* case, the burden of production on this element shifts to the Respondent (see section 2.1 of WIPO Overview 3.0). The Respondent submits that the circumstances of this case fall within paragraph 2.9 of WIPO Overview 3.0:

Panels have recognized that the use of a domain name to host a page comprising PPC links would be permissible--and therefore consistent with respondent rights or legitimate interests under the UDRP--where the domain name consists of an actual dictionary word(s) or phrase and is used to host PPC links genuinely related to the dictionary meaning of the word(s) or phrase comprising the domain name, and not to trade off the complainant's (or its competitor's) trademark.

The Respondent argues that the Respondent chose the Disputed Domain Name with someone other than the Complainant in mind (namely the defunct business 'AAA Auto Rental--U Can Rent Auto Rental') and because of the generic terms 'auto rental' contained within, which boosts search traffic. According to the Respondent, this was done in furtherance of its legitimate business operations, which from time to time involve the purchase of domain names in bulk. The Respondent denies that it was aware of the Complainant or the Trade Mark at the time of acquiring the Disputed Domain Name.

The Panel does not decide whether or not Respondent's business is legitimate, because the issue before the Panel is whether the Respondent has rights or legitimate interests in the Disputed Domain Name *per se* (see *Goodr LLC v. Michael Rader, Brandroot*, WIPO Case No. D2018-1171).

**\*6** The Panel accepts that some of the terms within the Disputed Domain Name are dictionary terms--namely 'autorental' and 'ucanrent'. The Panel also accepts that the acronym 'AAA' may be a common acronym in a number of industries. Previous panels have found that generic use of a disputed domain name for PPC links by a domainer can amount to a legitimate interest (*Havanna S.A. v. Brendhan Hight, Mdnh Inc.*, WIPO Case No. D2010-1652). However, in order to find rights or legitimate interests in a domain name based on its dictionary meaning, the domain name should be genuinely used, or at least demonstrably intended for such use, in connection with the relied-upon dictionary meaning and not to trade off third-party trade mark rights (see section 2.10 of WIPO Overview 3.0 and *Trade Me Limited v. Vertical Axis Inc.*, WIPO Case No. D2009-0093).

Here, the PPC links on the Respondent's website relate to both competitors of the Complainant (who provides various automobile services) and to the generic dictionary meaning of part of the Disputed Domain Name, being automobile rental services. That is, many of the PPC links relate to automobile services which naturally compete with the Complainant's business, but are also logically connected with the meaning of the words comprising the domain name's textual string. In these circumstances, it is difficult to

determine in which sense the predominate use has occurred (*Administradora de Marcas y Franquicias, S. A. de C. V. v. Marchex Sales, Inc./Brendhan Hight*, WIPO Case No. D2012-1572).

The Disputed Domain Name is not wholly descriptive--it consists of the Trade Mark, together with descriptive terms which Internet users may expect to be used by the Complainant.

The Disputed Domain Name includes 'AAA' which is the Complainant's Trade Mark and is not generally regarded as a dictionary word. The Disputed Domain Name is not being used because of any possible dictionary meaning of 'AAA'.

A simple Internet search for 'AAA' would have quickly revealed the Complainant's use and rights in AAA in the United States. As was the case in *Supermac's (Holdings) Limited v. Domain Administrator, DomainMarket.com*, WIPO Case No. D2018-0540, the Respondent has provided no evidence on how the Respondent clears the domain names it acquires, so it appears from the available record before the Panel that the Respondent simply registered the Disputed Domain Name without conducting any due diligence (other than determining that the Disputed Domain Name was once owned by a defunct business).

The Respondent's allegations that 'AAA' is a common acronym, like for example 'Asia Art Archive', is irrelevant noting the composition of the Disputed Domain Name.

For these reasons, the Panel finds that the Respondent does not have rights or legitimate interests in the Disputed Domain Name.

The Panel also considers that this case is again distinguishable from *The American Automobile Association, Inc. v. Domains by Proxy, LLC a/k/a Tamir Zaid, aaa locksmith services, supra*, because the Respondent has not used the Disputed Domain Name for a *bona fide* offering of auto-rental services.

\*7 The Complainant succeeds on the second element of the Policy.

### C. Registered and Used in Bad Faith

Paragraph 4(a)(iii) of the Policy provides that the Complainant must establish that the Respondent registered and subsequently used the Disputed Domain Name in bad faith.

The Respondent asserts that the Respondent was not aware of the Complainant or its rights in the Trade Mark when the Respondent acquired the Disputed Domain Name, and should not have been so aware because the Complainant's use of the Trade Mark was limited to the United States and Canada, and because the Respondent operates within Hong Kong.

It is not a requirement of the Policy for the Complainant to succeed that the Complainant must demonstrate that the Respondent registered the domain name with the Complainant in mind or to trade off the reputation of the Complainant. If the Complainant so demonstrates, that may be evidence of bad faith. But there may be other bases on which the Complainant can demonstrate bad faith. The Policy simply requires that the Complainant must establish that the Respondent registered and subsequently used the Disputed Domain Name in bad faith.

In the circumstances of this case, the Panel considers that the Respondent has an affirmative duty to conduct searches to determine whether registration of the Disputed Domain Name will infringe on the trademark rights of a third party.

The Respondent's website is accessible outside of Hong Kong, China. The links on the website at the Disputed Domain Name include links to businesses operating in the United States and other jurisdictions outside of Hong Kong, China, and the website appears to be directed at least in part to consumers in the United States. Even though the Respondent is located in Hong Kong, China, some of the links target United States consumers and therefore it was appropriate for the Respondent to consider United States trade mark rights.

Furthermore, even if the Respondent's business was limited to a single jurisdiction in which the Complainant did not have a trade mark registration, 'it does not follow that the Respondent is absolved from responsibility for an abusive domain name registration' (see *Supermac's (Holdings) Limited v. Domain Administrator, DomainMarket.com, supra*).

The Panel considers that the panel's comments in *Supermac's (Holdings) Limited v. Domain Administrator, DomainMarket.com, supra* are instructive here:

The Respondent's claim to ignorance of the Complainant's trademark rights may, or may not, be true. The fact is, however, that it is simply not possible for the Panel to know what was the Respondent's subjective state of mind, assuming that it actually had one. Given that the Respondent is a corporation and registered the disputed domain name through automated means ('drop-catching' the disputed domain name upon the accidental failure of the Complainant to renew its more than 14-years long previous registration of it), the reality is that the Respondent really had no subjective state of mind-- other than that it was registering a domain name that began with the word 'super' and that immediately prior had been held by another person.

\*8 In situations such as this, where the registration is automated, previous panels in cases under the Policy have approached the issue of knowledge objectively, rather than subjectively--that is to say, by considering what the Respondent should have known, rather than what it actually did or did not know. This, in turn, has led panels to recognize that the registrant of a domain name may have a duty to establish whether registration of the domain name will infringe on the trademark rights of a third party. As stated in section 3.2.3 of WIPO Overview 3.0: 'Panels have held that especially domainers undertaking bulk purchases or automated registrations have an affirmative obligation to avoid the registration of trademark-abusive domain names. The Panel will look to the facts of the case to determine whether such respondent has undertaken good faith efforts to screen such registrations against readily-available online databases to avoid registration of trademark-abusive domain names.'

Although the Panel notes that the previous registrant of the Disputed Domain Name in this case is not the Complainant here, the Panel considers that similar reasoning applies to *Supermac's (Holdings) Limited v. Domain Administrator, DomainMarket.com, supra*. The Disputed Domain Name consists of the Trade Mark, and descriptive words which Internet users may expect to be used by the Complainant. In this situation, it is correct to say, as did the panel in *Supermac's (Holdings) Limited v. Domain Administrator, DomainMarket.com, supra* and *Pullmantur, S.A. v. Domain Asset Holdings, LLC, Domain Administrator*, WIPO Case No. D2015-0053: '[T]he most likely explanation for the registration and holding of the Domain Name was to take some form of unfair advantage of the association of the term embodied in the Domain Name with the Complainant's trade marks'.

The evidence before the Panel does not disclose how the Respondent screens the domain names it acquires or registers. The Respondent claims that it was unaware of the Complainant's rights. As was found by the panel in *Goodr LLC v. Michael Rader, Brandroot, supra* the Respondent's claim is in effect an admission that the Respondent failed to search and/or screen the Disputed Domain Name, as was Respondent's responsibility. This is particularly relevant where the Respondent's business is to acquire domain names in bulk for either PPC advertising, or to sell to consumers.

The Panel concludes that the Respondent, when registering the Disputed Domain Name, acted in disregard of the rights of third parties and therefore registered the Disputed Domain Name in bad faith. It is not sufficient for the Respondent to rely on the fact that the Disputed Domain Name was held by a third party before it expired as evidence of good faith. In the circumstances of this case, if the Respondent did not know of the Trade Mark, it should have known. Paragraphs 2 and 4 of the Policy impose a degree of responsibility even for a business that automates the process of rapidly registering expired or deleted domain names (see *Media General Communications, Inc. v. Rarenames, WebReg*, WIPO Case No. D2006-0964).

In this case, the submissions and evidence provided by the Complainant supports an inference of bad faith registration, and the Respondent has failed to rebut this presumption (see *Yusuf A. Alghanim & Sons W.L.L. v. Anees Salah Salameh*, WIPO Case No. D2018-1231). Specifically, the Respondent claims that the Disputed Domain Name was registered because it belonged to a defunct business, and because the Disputed Domain Name is attractive because it contains the words 'autorental' twice, which boosts traffic. Merely buying a domain name from a defunct business does not mean that the domain name is clear to use and will not infringe on third party rights. The former business could have had prior use rights, or could itself have been infringing on the Complainant's rights. Furthermore, the Respondent could just as easily have registered any number of domain names containing the words 'autorental' without any reference to AAA or the Complainant, if this was indeed the primary reason for the value in the Disputed Domain Name.

For these reasons, the Panel finds that the Disputed Domain Name has been registered and is being used in bad faith.

For completeness, the Panel notes that the Complainant submits that the Respondent has a history of cybersquatting, and points to numerous different actions under the Policy filed with the Center: *Philip Morris USA Inc. v. Domain Administrator, Eastern Valley Limited/Domain Administrator, China Capital Investment Limited*, WIPO Case No. D2017-1978; *Philip Morris USA Inc. v. China Capital*

*Investment Limited/Domain Administrator, WIPO Case No. D2017-0846; Royal Bank of Canada v. China Capital Investment Limited, WIPO Case No. D2017-1025; Partners Group Holding AG and Partners Group AG v. Domain Admin, China Capital Investment Limited, WIPO Case No. D2016-2501; Equifax Inc. v. Domain Administrator, China Capital Investment Limited, WIPO Case No. D2017-1880; Société Air France v. Domain Administrator, China Capital, WIPO Case No. D2018-1220; The Commissioners for HM Revenue and Customs v. Domain Administrator, China Capital, WIPO Case No. D2018-1640; Berlitz Investment Corporation v. China Capital Investment Limited, WIPO Case No. D2016-2197; Philip Morris USA Inc. v. Domain Administrator, China Capital Domain Fund Limited; Domain Administrator, Eastern Valley Limited, WIPO Case No. D2018-1280.* The Complainant does not submit that this amounts to a pattern of conduct for the purposes of clause 4(b)(ii) of the Policy, and it is not necessary for the Panel to make a finding on this issue.

## 7. Decision

For the foregoing reasons, in accordance with paragraphs 4(i) of the Policy and 15 of the Rules, the Panel orders that the disputed domain name <aaaautorental-ucanrentautorental.com> be transferred to the Complainant.

Date: October 31, 2019

**Arbitrator: John Swinson**

Sole Panelist

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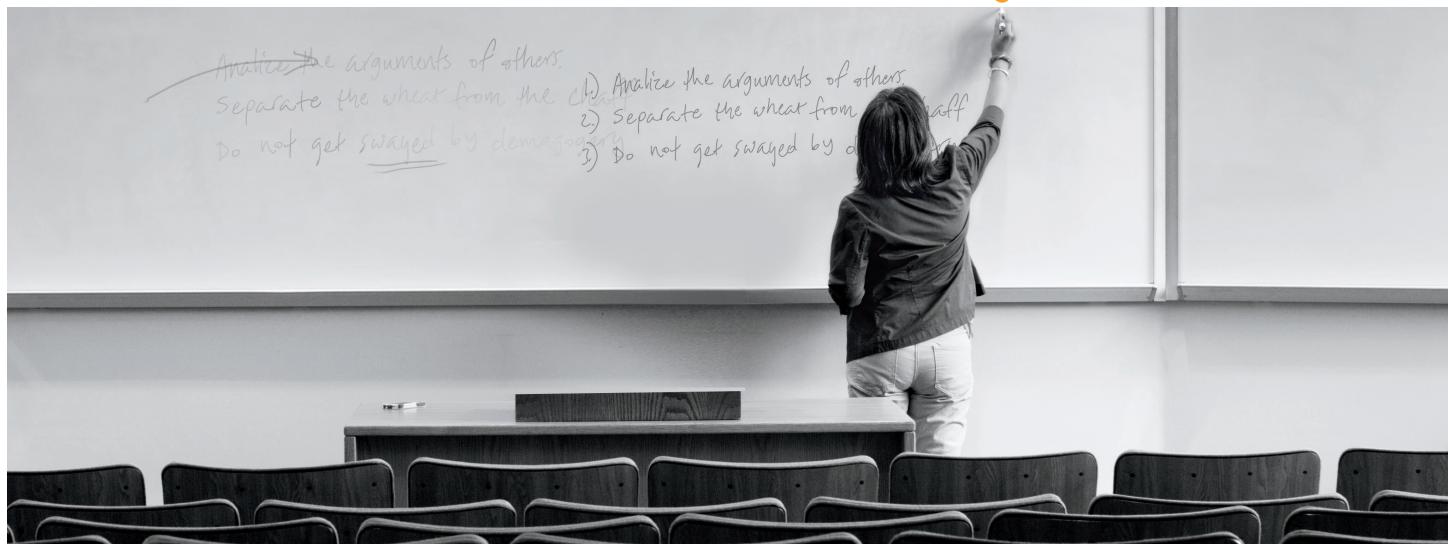
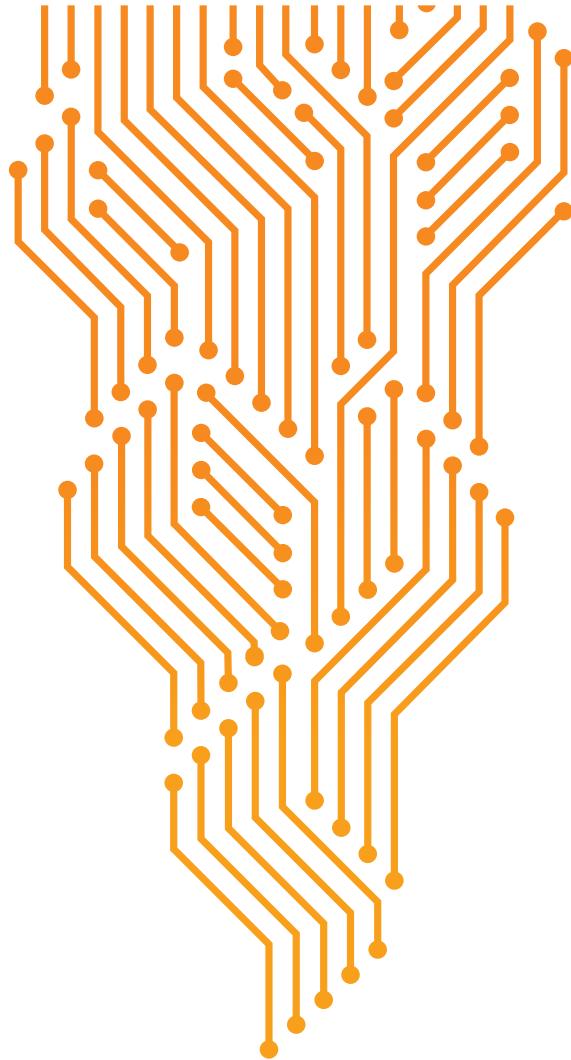
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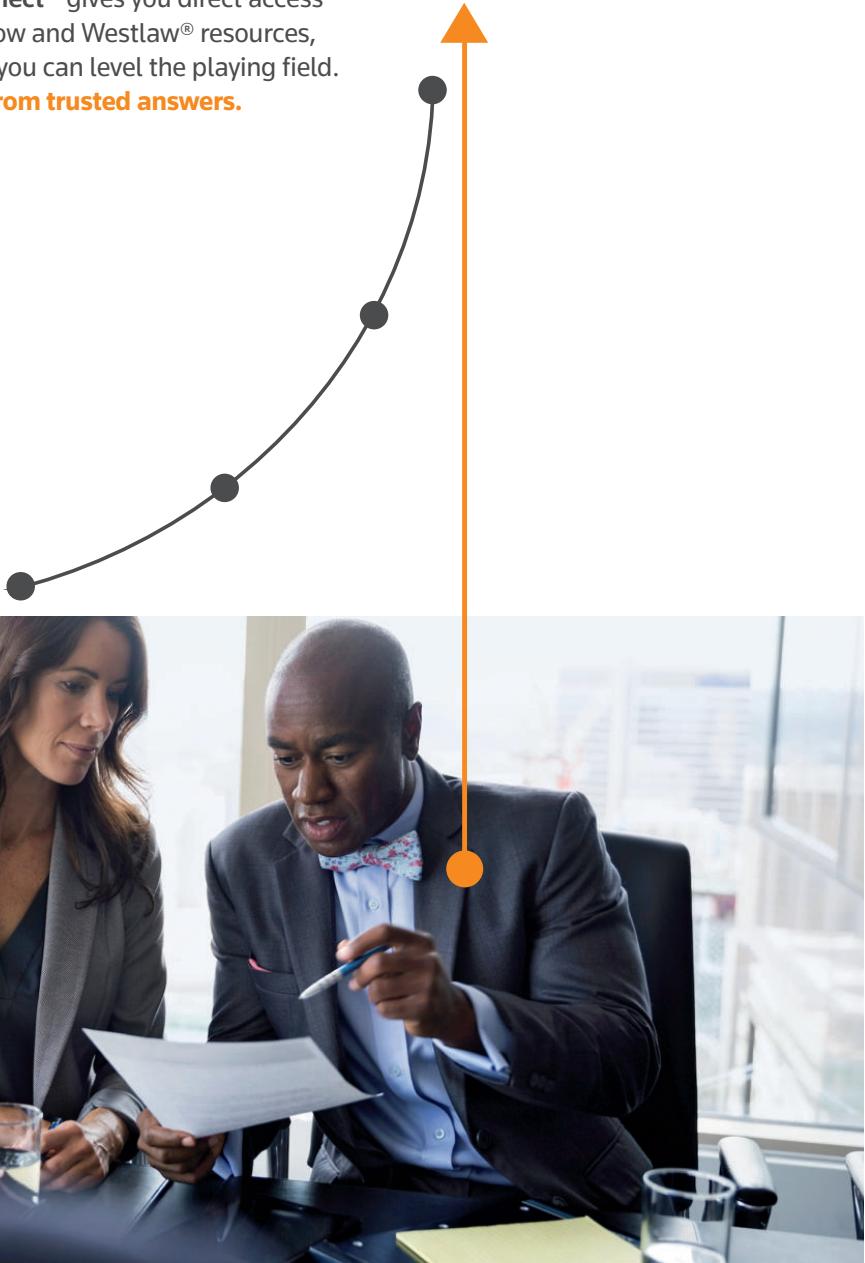
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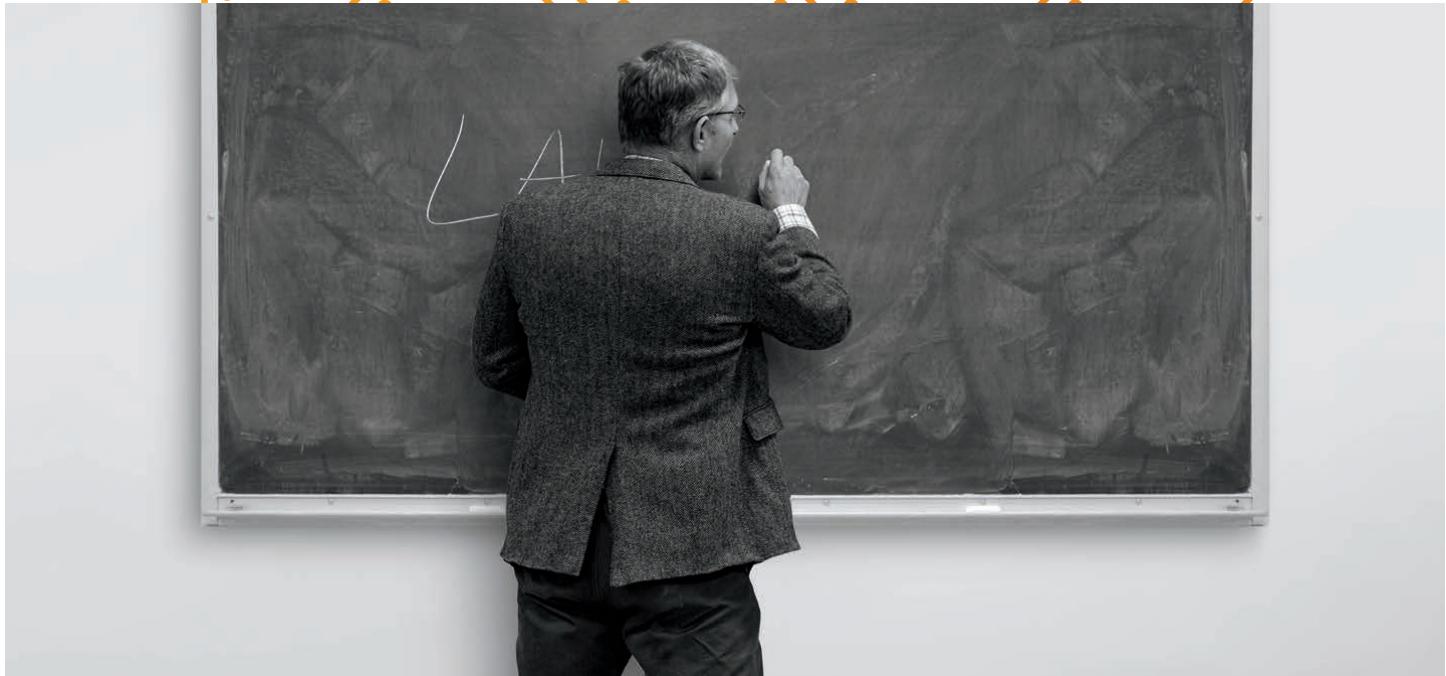
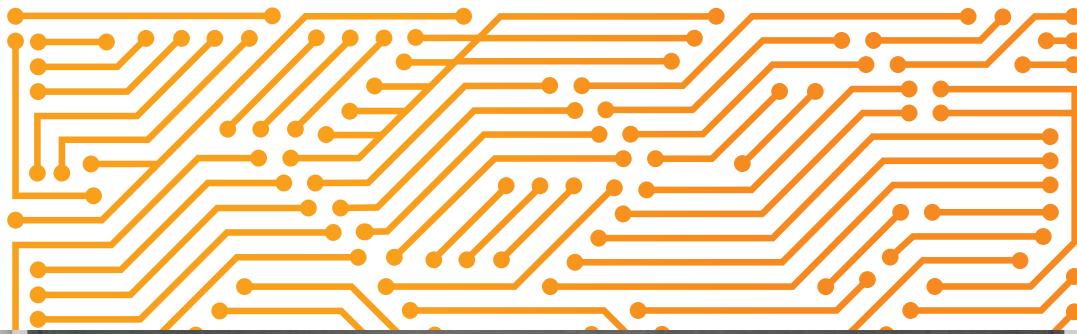
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